



**Dr. Pixley Ka Isaka Seme Local Municipality**  
**(Registration number MP304)**  
**Annual Financial Statement**  
**for the year ended 30 June 2016**

**Audited  
By**

**2016 -11- 30**

**Auditor General South Africa**  
**Mpumalanga Business Unit**

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## General Information

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<b>Legal form of entity</b>	Municipality
<b>Councillors Information (as at 30 June 2016)</b>	
Executive Mayor	Malatsi PV
Speaker	Luhlanga ZH
Chief Whip	Shabangu OT
Mayoral Committee	Ngwenya GO and Dakile TP
Section 79 Committee	Madonsela EM Nxumalo SN  Mazibuko TA Mavuso BG
Councillors	Motha S Du Plooy CH De Jager L Mazibuko FJ Mhlanga BJ Mndebele MS Mazibuko PM Dludlu ZE Mbokane TE Botha ACE De Kock PRR Hlakutse TV
Accounting Officer	Malebye PB
Acting Chief Finance Officer (CFO)	Ntombela GNP
Business address	Dr Nelson Mandela Drive and Adelaide Tambo Street Volksrust 2470
Postal address	Private bag X9001 Volksrust 2470
Bankers	First National Bank - Main account  Standard Bank - Short term investments  Nedbank - Short term investments
Auditors	Auditor General of South Africa Registered Auditors
Nature of business and principal activities	Service delivery
Grading of local authority	3

## **Dr. Pixley Ka Isaka Seme Local Municipality**

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

### **General Information**

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**Attorneys**

TMN Kgomo and Associates  
Mjali and Zimema Attorneys  
Coetzee, Spoelstra and Van Zyl Inc

**Telephone number**

017 734-6100

**Fax**

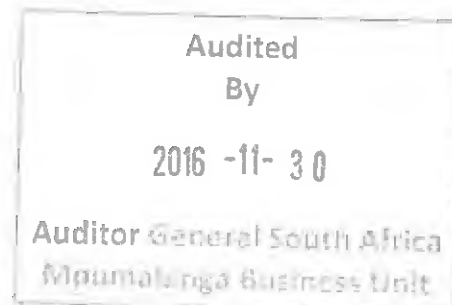
086 630 2209

**Email**

records@pixleykaseme.gov.za

**Jurisdiction**

Pixley Ka Isaka Seme municipal boundary MP304



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

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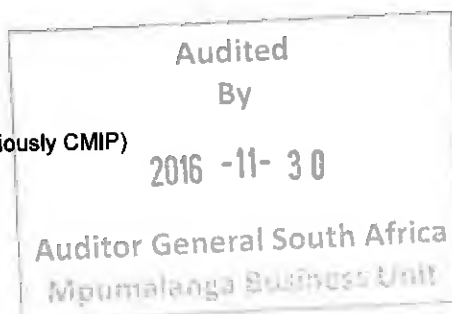
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The reports and statements set out below comprise the annual financial statement presented to the provincial legislature:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



## Dr. Pixley Ka Isaka Seme Local Municipality

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### Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statement and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statement fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statement and was given unrestricted access to all financial records and related data.

The annual financial statement have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statement are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

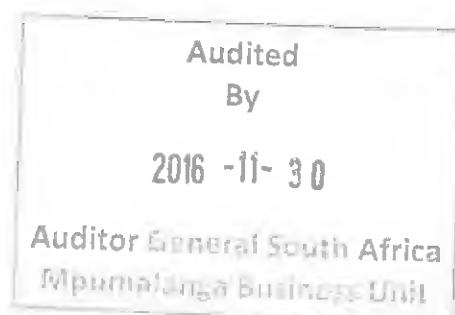
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statement. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statement. The annual financial statement have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statement set out on pages 6 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

  
Malebye PB  
Designation: Accounting Officer



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Audit Committee Report

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We are pleased to present our report for the financial year ended 30 June 2016.

### Audit committee members and attendance

The audit committee consists of three members listed hereunder and meets at least four times per annum as per its approved terms of reference. During the current year five meetings were held.

Name of member	Number of meetings attended
I Mpatlanyane (Chairperson)	5 / 5
M Mahonga	5 / 5
M Mothamaha	5 / 5

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### Evaluation of annual financial statement

The audit committee has:

- reviewed the accounting accounting policies and practices;
- reviewed the municipality compliance with legal and regulatory provisions;

The Audit Committee reviewed the draft Annual Financial Statement of the municipality, before submission to the Auditor general.

The audit committee was able to satisfy itself the annual financial statement complied with required legislation and Circular 50 related to the preparation of the Annual Financial Statements and the Audit file.

### Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

The audit committee noted with concern the shortage of staff in the internal audit unit and has advised accordingly. Other than the shortage of staff, the Audit Committee is satisfied with the work of the internal audit unit and the progress made in implementing the 2015/16 approved operational audit plan.

### Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

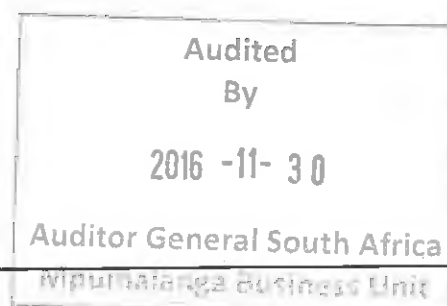
The Audit Committee has reviewed the Municipality's implementation plan for the audit issues raised in the audit report and has raised some concerns of the limited progress made.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statement, and are of the opinion that the audited annual financial statement should be accepted and read together with the report of the Auditor-General of South Africa

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Chairperson of the Audit Committee

Date: \_\_\_\_\_



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
<b>Assets</b>			
<b>Current Assets</b>			
Other financial assets	3	739 297	716 487
Inventories	4	985 842	1 599 842
Receivables from exchange transactions	5	3 134 746	2 900 458
Receivables from non-exchange transactions	6	119 805	76 964
Consumer debtors	7	79 795 557	42 763 286
Cash and cash equivalents	8	82 886 810	55 399 794
		<b>167 662 057</b>	<b>103 456 831</b>
<b>Non-Current Assets</b>			
Investment property	9	108 934 468	110 108 517
Property, plant and equipment	10	603 998 413	603 691 650
Intangible assets	11	274 216	850 265
Heritage assets	12	3 485 999	3 485 999
		<b>716 693 096</b>	<b>718 136 431</b>
<b>Non-Current Assets</b>		<b>716 693 096</b>	<b>718 136 431</b>
<b>Current Assets</b>		<b>167 662 057</b>	<b>103 456 831</b>
<b>Total Assets</b>		<b>884 355 153</b>	<b>821 593 262</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	53	73 342	129 843
Payables from exchange transactions	13	37 847 917	33 239 516
Unspent conditional grants and receipts	14	7 965 808	1 987 030
Consumer deposits	15	1 626 975	1 629 117
VAT payable	16	7 080 905	2 590 118
Employee benefit obligation	17	1 156 711	4 422 229
Provisions	18	391 131	379 705
		<b>56 142 789</b>	<b>44 377 558</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	17	23 365 407	19 080 435
Provisions	18	19 431 198	20 178 324
Provision for water supply	19	84 266 415	76 131 933
		<b>127 063 020</b>	<b>115 390 692</b>
<b>Non-Current Liabilities</b>		<b>127 063 020</b>	<b>115 390 692</b>
<b>Current Liabilities</b>		<b>56 142 789</b>	<b>44 377 558</b>
<b>Total Liabilities</b>		<b>183 205 809</b>	<b>159 768 250</b>
<b>Assets</b>		<b>884 355 153</b>	<b>821 593 262</b>
<b>Liabilities</b>		<b>(183 205 809)</b>	<b>(159 768 250)</b>
<b>Net Assets</b>		<b>701 149 344</b>	<b>661 825 012</b>
Accumulated surplus		701 149 342	661 825 010
<b>Total Net Assets</b>		<b>701 149 342</b>	<b>661 825 010</b>

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# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
<b>Revenue</b>			
Government grants & subsidies	20	129 108 780	112 941 530
Service charges	21	91 288 738	93 140 227
Property rates	22	33 059 783	30 129 008
Interest received (trading)	23	24 130 058	14 641 563
Interest received - investment	24	5 633 780	3 097 181
Licences and permits	25	5 547 900	5 134 908
Miscellaneous other revenue		2 812 176	2 529 566
Fines, Penalties and Forfeits		284 277	577 897
Rental of facilities and equipment		19 435	21 627
Fair value adjustment on other financial assets		22 810	64 651
Property rates - penalties imposed		-	140
<b>Total revenue</b>		<b>291 907 737</b>	<b>262 278 298</b>
<b>Expenditure</b>			
Employee related costs	28	(67 111 820)	(71 039 936)
Bulk purchases	29	(64 465 697)	(48 845 889)
Depreciation and amortisation	30	(28 701 181)	(33 946 501)
General Expenses	31	(28 526 564)	(27 472 476)
Debt Impairment	32	(28 375 951)	(132 912 491)
Repairs and maintenance		(14 633 802)	(10 049 955)
Contracted services	33	(11 935 592)	(8 883 609)
Remuneration of councillors	34	(7 464 421)	(6 981 942)
Transfers and Subsidies	35	(1 633 991)	-
Finance cost	52	(398 000)	(344 891)
<b>Total expenditure</b>		<b>(253 247 019)</b>	<b>(340 477 690)</b>
Total revenue		291 907 737	262 278 298
Total expenditure		(253 247 019)	(340 477 690)
<b>Operating surplus (deficit)</b>		<b>38 660 718</b>	<b>(78 199 392)</b>
Loss on disposal of assets and liabilities		(534 189)	(263)
Actuarial gains	17	1 197 800	542 209
		<b>663 611</b>	<b>541 946</b>
Surplus (deficit) before taxation		39 324 329	(77 657 446)
<b>Surplus (deficit) for the year</b>		<b>39 324 329</b>	<b>(77 657 446)</b>

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## Dr. Pixley Ka Isaka Seme Local Municipality

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### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	(342 953 290)	(342 953 290)
Adjustments		
Prior year adjustments	1 082 435 746	1 082 435 746
<b>Balance at 01 July 2014 as restated*</b>	<b>739 482 456</b>	<b>739 482 456</b>
Changes in net assets		
Surplus for the year	(77 657 446)	(77 657 446)
Total changes	(77 657 446)	(77 657 446)
Opening balance as previously reported	668 026 958	668 026 958
Adjustments		
Correction of errors	(191 670)	(191 670)
Prior year adjustments	(6 010 275)	(6 010 275)
<b>Balance at 01 July 2015 as restated*</b>	<b>661 825 013</b>	<b>661 825 013</b>
Changes in net assets		
Surplus for the year	39 324 329	39 324 329
Total changes	39 324 329	39 324 329
<b>Balance at 30 June 2016</b>	<b>701 149 342</b>	<b>701 149 342</b>
Note(s)		

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# Dr. Pixley Ka Isaka Seme Local Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		84 926 232	66 329 531
Grants		135 087 558	110 587 469
Interest income		7 230 664	4 832 253
Licensing and permits		22 592 382	19 182 197
Other cash item		-	863 125
		249 836 836	201 794 575
<b>Payments</b>			
Employee costs		(72 518 746)	(76 117 138)
Suppliers		(65 081 079)	(47 453 707)
Bulk purchases		(56 331 218)	(41 167 274)
		(193 931 043)	(164 738 119)
Total receipts		249 836 836	201 794 575
Total payments		(193 931 043)	(164 738 119)
<b>Net cash flows from operating activities</b>	37	<b>55 905 793</b>	<b>37 056 456</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(28 343 980)	(29 564 037)
Proceeds from sale of property, plant and equipment	10	-	1 807 306
Purchase of other intangible assets	11	-	(429 207)
<b>Net cash flows from investing activities</b>		<b>(28 343 980)</b>	<b>(28 185 938)</b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(74 796)	(68 563)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>27 487 016</b>	<b>8 801 955</b>
Cash and cash equivalents at the beginning of the year		55 399 794	46 597 837
<b>Cash and cash equivalents at the end of the year</b>	8	<b>82 886 810</b>	<b>55 399 792</b>

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# Dr. Pixley Ka Isaka Seme Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	123 297 072	(15 000 000)	108 297 072	91 288 738	(17 008 334)	1
Rental of facilities and equipment	25 996	-	25 996	19 435	(6 561)	2
Interest received (trading)	12 203 803	9 000 000	21 203 803	24 130 058	2 926 255	3
Licences and permits	18 829 209	2 000 000	20 829 209	5 547 900	(15 281 309)	
Fair value adjustment	-	-	-	22 810	22 810	
Miscellaneous other revenue	940 711	1 447 118	2 387 829	2 812 176	424 347	4
Interest received - investment	2 134 694	500 000	2 634 694	5 633 780	2 999 086	5
<b>Total revenue from exchange transactions</b>	<b>157 431 485</b>	<b>(2 052 882)</b>	<b>155 378 603</b>	<b>129 454 897</b>	<b>(25 923 706)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	35 375 796	3 000 000	38 375 796	33 059 783	(5 316 013)	
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##### Transfer revenue

Government grants & subsidies	97 655 250	-	97 655 250	96 259 406	(1 395 844)	6
Fines, Penalties and Forfeits	187 147	390 749	577 896	284 277	(293 619)	

<b>Total revenue from non-exchange transactions</b>	<b>133 218 193</b>	<b>3 390 749</b>	<b>136 608 942</b>	<b>129 603 466</b>	<b>(7 005 476)</b>	
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'Total revenue from exchange transactions'	157 431 485	(2 052 882)	155 378 603	129 454 897	(25 923 706)	
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'Total revenue from non-exchange transactions'	133 218 193	3 390 749	136 608 942	129 603 466	(7 005 476)	
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<b>Total revenue</b>	<b>290 649 678</b>	<b>1 337 867</b>	<b>291 987 545</b>	<b>259 058 363</b>	<b>(32 929 182)</b>	
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#### Expenditure

Employee related costs	(79 122 375)	(806 768)	(80 096 000)	(67 111 820)	12 984 180	8
Remuneration of councillors	(7 585 900)	-	(7 585 900)	(7 464 421)	121 479	
Depreciation and amortisation	(30 045 200)	(2 000 000)	(32 045 200)	(28 701 181)	3 344 019	
Interest on landfill site rehabilitation provision	-	-	-	(398 000)	(398 000)	
Debt impairment	(51 920 418)	-	(51 920 418)	(28 375 951)	23 544 467	
Repairs and maintenance	(16 749 504)	(2 300 000)	(19 049 504)	(14 633 802)	4 415 702	8
Bulk purchases	(54 351 245)	3 500 000	(50 851 245)	(64 465 697)	(13 614 452)	9
Contracted Services	(12 017 772)	(2 350 000)	(14 367 772)	(11 935 592)	2 432 180	
Transfers and Subsidies	(2 284 537)	-	(2 284 537)	(1 633 991)	650 546	10
General Expenses	(46 360 263)	4 059 000	(42 301 263)	(28 526 564)	13 774 699	11

<b>Total expenditure</b>	<b>(300 437 214)</b>	<b>102 232</b>	<b>(300 501 839)</b>	<b>(253 247 019)</b>	<b>47 254 820</b>	
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Total revenue	290 649 678	1 337 867	291 987 545	259 058 363	(32 929 182)	
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Total expenditure	(300 437 214)	102 232	(300 334 982)	(253 247 019)	47 087 963	
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<b>Operating surplus</b>	<b>(9 787 536)</b>	<b>1 440 099</b>	<b>(8 347 437)</b>	<b>5 811 344</b>	<b>14 158 781</b>	
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Loss on disposal of assets and liabilities	-	-	-	(534 189)	(534 189)	
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2016 -11- 30

# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actuarial gains/losses	-	-	-	1 197 800	1 197 800	
	-	-	-	663 611	663 611	
	(9 787 536)	1 440 099	(8 347 437)	5 811 344	14 158 781	
	-	-	-	663 611	663 611	
<b>Surplus before taxation</b>	<b>(9 787 536)</b>	<b>1 440 099</b>	<b>(8 347 437)</b>	<b>6 474 955</b>	<b>14 822 392</b>	
Deficit before taxation	(9 787 536)	1 440 099	(8 347 437)	6 474 955	14 822 392	
Taxation	-	-	-	-	-	
<b>Surplus for the year from continuing operations</b>	<b>(9 787 536)</b>	<b>1 440 099</b>	<b>(8 347 437)</b>	<b>6 474 955</b>	<b>14 822 392</b>	
Capital budget	44 639 860	-	44 639 860	32 833 175	(11 806 685)	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>34 852 324</b>	<b>1 440 099</b>	<b>36 292 423</b>	<b>39 308 130</b>	<b>3 015 707</b>	

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statement

The annual financial statement have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statement have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statement, are disclosed below.

#### 1.1 Presentation currency

These annual financial statement are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statement have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statement, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statement and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statement. Significant judgements include:

##### Trade receivables, loans and receivables

The municipality assesses its trade receivables, loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by economic factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as exchange rates, inflation and interest rates.

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Significant Judgements and sources of estimation uncertainty (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

The provision for doubtful debt is determined by taking in to account the payment rate by debtor, indigent status and whether the debtor has credit balance at financial year end.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

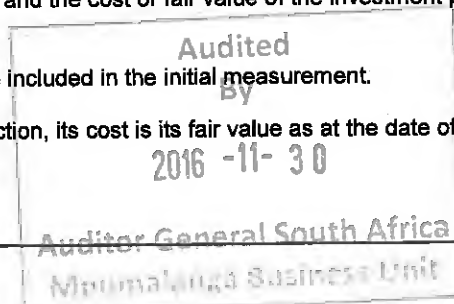
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.



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### 1.4 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling, removing the asset and restoring the site on which it is located.

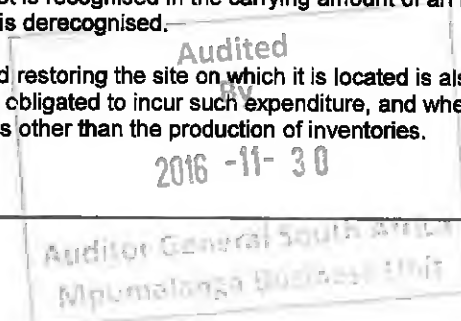
Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.



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### 1.5 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Unlimited
Buildings	Straight line	30 years
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 - 7 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 - 5 years
Infrastructure	Straight line	10 - 30 years
Bins and containers	Straight line	5 - 10 years
Specialised vehicles	Straight line	20 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.



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### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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### 1.7 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

### 1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statement.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assesses at each reporting date if there is an indication of impairment.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

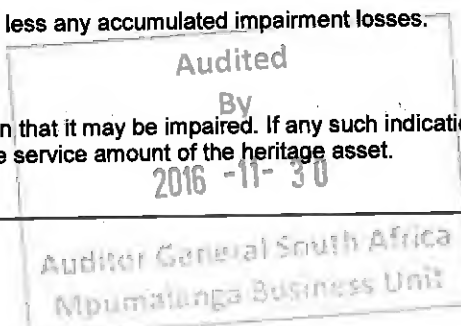
Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.



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### 1.8 Heritage assets (continued)

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

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### 1.9 Financial instruments (continued)

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

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### 1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

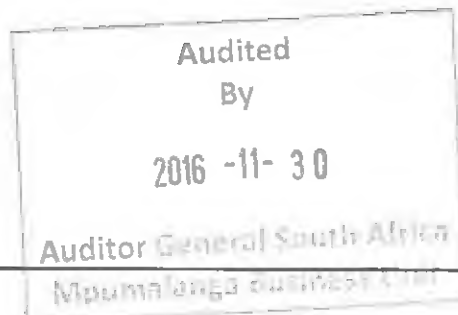
#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.



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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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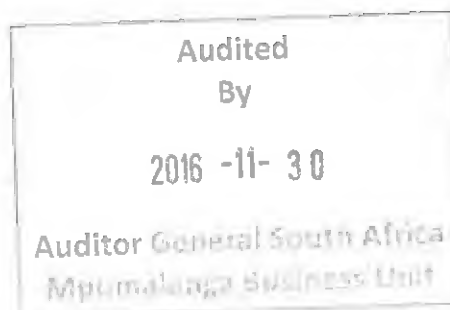
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### 1.9 Financial Instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.



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### 1.9 Financial Instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.



# **Dr. Pixley Ka Isaka Seme Local Municipality**

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### **1.9 Financial Instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### **1.10 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

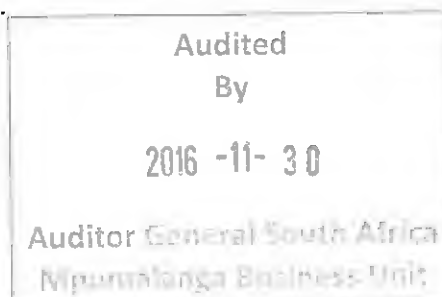
#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.



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## Accounting Policies

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### 1.10 Leases (continued)

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

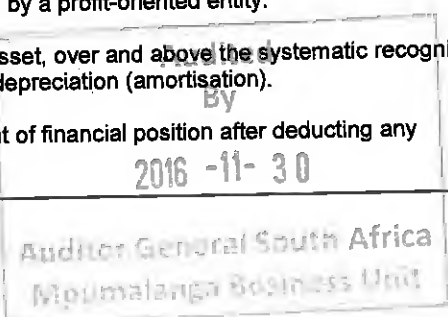
When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.



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### 1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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### 1.12 Impairment of cash-generating assets (continued)

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Audited  
By

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Auditor General South Africa  
Mpumalanga Business Unit

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### 1.13 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

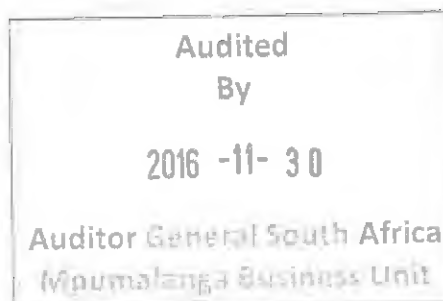
The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



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### 1.13 Employee benefits (continued)

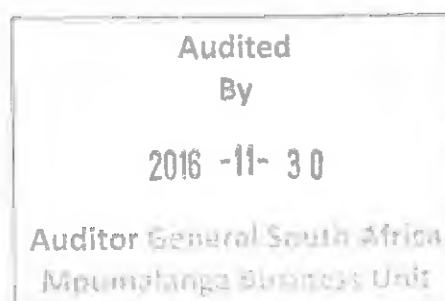
#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.



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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

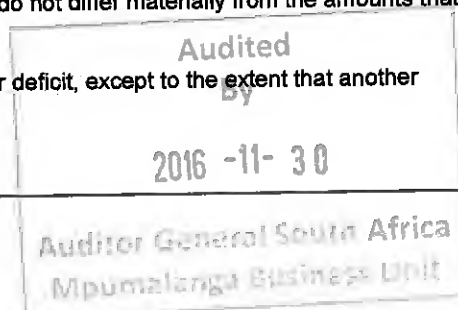
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statement do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;





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### 1.13 Employee benefits (continued)

- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

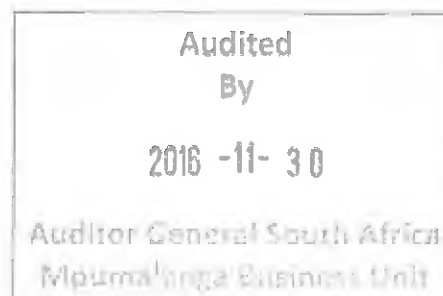
The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.



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### 1.13 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Long service awards

The municipality has an obligation to provide for long term service awards to all of its employees who have been in service of the municipality for a certain period of time. According to the rules of the long service allowance scheme, which the municipality institutes and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

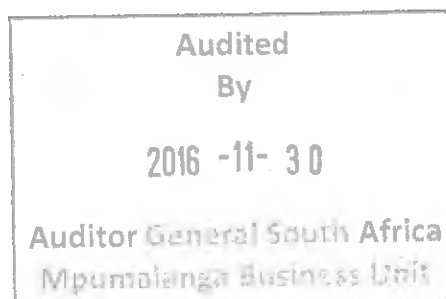
The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liability. Actuarial gains and losses on the long service awards are recognised in the statement of financial performance.

The amount recognised as a liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

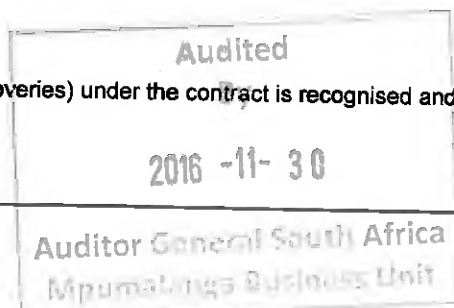
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

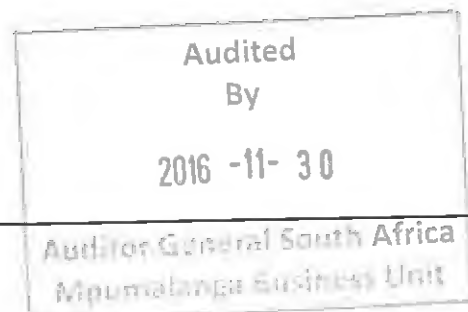
The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and .

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Commitments

Items are classified as commitments when a municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties Interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### Levies

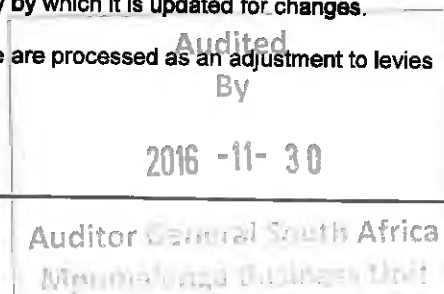
Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

#### Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

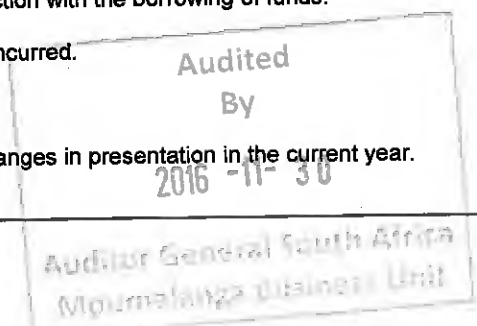
### 1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.





# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

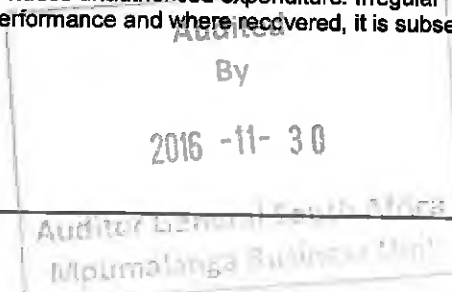
Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

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### 1.24 Use of estimates

The preparation of annual financial statement in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statement are disclosed in the relevant sections of the annual financial statement. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statement and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statement as the recommended disclosure when the annual financial statement and the budget are on the same basis of accounting as determined by National Treasury.

### 1.28 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Accounting Policies

### 1.29 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

## Notes to the Annual Financial Statement

Figures in Rand	2016	2015
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations not yet effective or relevant

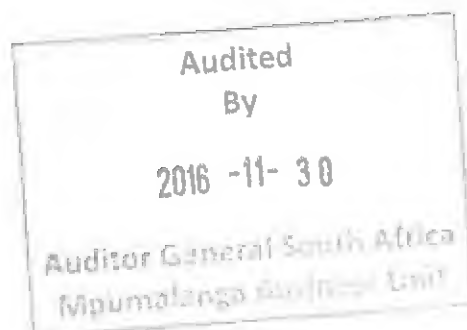
The following GRAP standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality. The ASB's Directive 5 (2015 - 2016), paragraph 28, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Standards as listed below will only be effective when a date is announced by the Minister of Finance.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality as, either the information to a large extent is already included in the notes to the annual financial statements, or the municipality does not participate in such business transactions.

- GRAP 18 - Segment Reporting
- GRAP 32 - Service Concession Arrangement Grantor
- GRAP 108 - Statutory Receivables
- IGRAP 17 - Service Concession Arrangements where a grantor controls a significant residual interest in an asset

Issued February 2011  
Issued August 2013  
Issued September 2013  
Issued August 2013



# Dr. Pixley Ka Isaka Seme Local Municipality

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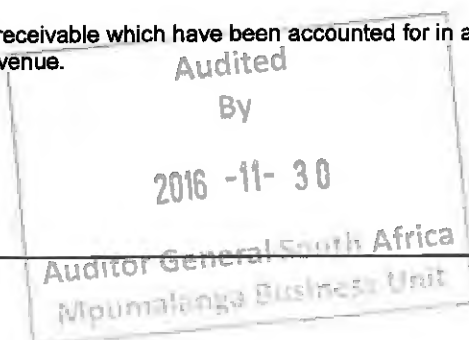
Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand	2016	2015
<b>3. Other financial assets</b>		
<b>Designated at fair value</b>		
Unit trusts	739 297	716 487
<b>Current assets</b>		
Designated at fair value	739 297	651 835
<b>Financial assets at fair value</b>		
<b>Fair values of financial assets measured or disclosed at fair value</b>		
Class 1	739 297	716 487
The valuation of the shares is based on the fair value of the unit price and number of shares obtained as at 30 June 2016. The number of shares held with Old Mutual is 1 731.555 at a value of R426.96 per share.		
<b>4. Inventories</b>		
Consumable stores	829 510	1 515 407
Water	156 332	84 435
	<b>985 842</b>	<b>1 599 842</b>
Carrying value of inventories carried at fair value less costs to sell	4 104	-
Consumables stores issuances expensed during the year	561 157	136 083
In the current year an inventory item held at an average cost of R1,999.1 per unit was written to a net realisable value of R14.50 per unit. Before write down to net realisable value of R4,104 the stock item was accounted for at cost amounting to R135,960.		
<b>5. Receivables from exchange transactions</b>		
Other debtors	1 926 192	1 691 904
Debtors for sale of stands	1 208 554	1 208 554
	<b>3 134 746</b>	<b>2 900 458</b>
<b>Debtor for sale of stands</b>		
The debtor for sale of stands receivable represents proceeds owing from purchasers for property owned by the municipality that has been sold.		
<b>6. Receivables from non-exchange transactions</b>		
Traffic fines	119 805	76 964

### Fair value of receivables from non-exchange transactions

Receivables from non-exchange transactions consists of traffic fines receivable which have been accounted for in accordance with IGRAP 1 - Applying the probability test on initial recognition of revenue.



# Dr. Pixley Ka Isaka Seme Local Municipality

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### 6. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions impaired

As of 30 June 2016, receivables from non-exchange transactions of R 256 809 (2015: R 372 508) were impaired and provided for.

The amount of the provision was R 955 425 as of 30 June 2016 (2015: R 698 616).

During the 2015 financial year 15% of traffic fines issued were paid whilst in the 2016 financial year 14% of traffic fines issued were paid.

### 7. Consumer debtors

#### Gross balances

Rates	46 464 195	35 115 166
Electricity	18 736 149	13 911 010
Water	75 228 799	63 206 748
Sewerage	35 299 983	30 263 997
Refuse	19 047 510	15 805 755
Other receivables	117 061 510	90 393 299
	<b>311 838 146</b>	<b>248 695 975</b>

#### Less: Allowance for impairment

Rates	(23 583 681)	(27 285 324)
Electricity	(10 771 180)	(7 251 556)
Water	(57 991 691)	(54 599 897)
Sewerage	(29 882 050)	(25 895 171)
Refuse	(15 910 665)	(15 275 394)
Other receivables	(93 903 322)	(75 625 347)
	<b>(232 042 589)</b>	<b>(205 932 689)</b>

#### Net balance

Rates	22 880 514	7 829 842
Electricity	7 964 969	6 659 454
Water	17 237 109	8 606 851
Sewerage	5 417 933	4 368 826
Refuse	3 136 845	530 361
Other receivables	23 158 188	14 767 952
	<b>79 795 557</b>	<b>42 763 286</b>

#### Included in above is receivables from exchange transactions

Electricity	7 964 969	6 659 454
Water	17 237 109	8 606 851
Sewerage	5 417 933	4 368 826
Refuse	3 136 845	530 361
Other	22 934 396	17 830 306
	<b>56 691 252</b>	<b>37 995 798</b>

#### Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	22 880 514	7 829 842
Net balance	<b>79 571 766</b>	<b>45 825 640</b>

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# Dr. Pixley Ka Isaka Seme Local Municipality

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<b>7. Consumer debtors (continued)</b>		
<b>Rates</b>		
Current (0 -30 days)	1 799 780	1 545 227
31 - 60 days	1 347 960	1 364 808
61 - 90 days	1 357 465	1 886 978
91 - 120 days	1 075 507	1 110 988
121 - 180 days	6 042 509	630 651
> 180 days	34 840 974	28 576 515
	<b>46 464 195</b>	<b>35 115 167</b>
<b>Electricity</b>		
Current (0 -30 days)	3 876 470	3 868 360
31 - 60 days	1 147 118	823 970
61 - 90 days	492 414	402 817
91 - 120 days	372 568	558 425
121 - 180 days	5 312 986	197 376
> 180 days	7 534 592	8 060 062
	<b>18 736 148</b>	<b>13 911 010</b>
<b>Water</b>		
Current (0 -30 days)	4 168 142	3 508 586
31 - 60 days	1 428 281	3 018 372
61 - 90 days	2 042 957	1 557 708
91 - 120 days	1 594 509	4 751 196
121 - 180 days	10 065 673	1 171 356
> 180 days	55 929 234	49 199 530
	<b>75 228 796</b>	<b>63 206 748</b>
<b>Sewerage</b>		
Current (0 -30 days)	958 567	885 696
31 - 60 days	804 097	748 243
61 - 90 days	742 848	672 284
91 - 120 days	717 265	639 397
121 - 180 days	4 478 534	618 763
> 180 days	27 598 671	26 699 614
	<b>35 299 982</b>	<b>30 263 997</b>
<b>Refuse</b>		
Current (0 -30 days)	565 236	523 300
31 - 60 days	466 194	444 861
61 - 90 days	434 385	398 388
91 - 120 days	420 094	381 704
121 - 180 days	2 625 059	368 579
> 180 days	14 536 544	13 688 923
	<b>19 047 512</b>	<b>15 805 755</b>

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# Dr. Pixley Ka Isaka Seme Local Municipality

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### 7. Consumer debtors (continued)

#### Other receivables

Current (0 -30 days)	3 045 768	3 127 415
31 - 60 days	3 309 636	3 122 878
61 - 90 days	3 093 961	1 964 391
91 - 120 days	3 001 848	2 844 926
121 - 180 days	18 520 928	2 043 586
> 180 days	86 089 368	77 290 103
	<b>117 061 509</b>	<b>90 393 299</b>

#### Consumers

Current (0 -30 days)	10 736 476	7 748 761
31 - 60 days	6 915 766	8 354 351
61 - 90 days	6 404 611	6 486 343
91 - 120 days	5 881 698	9 917 831
121 - 180 days	39 361 258	4 750 552
> 180 days	190 007 772	194 556 773
Allowance for impairment	(207 528 067)	(190 069 215)
	<b>51 779 514</b>	<b>41 745 396</b>

#### Industrial / Commercial / Agriculture

Current (0 -30 days)	2 690 500	1 165 226
31 - 60 days	1 130 275	599 160
61 - 90 days	1 160 102	322 298
91 - 120 days	1 029 676	309 498
121 - 180 days	6 022 418	223 181
> 180 days	19 152 623	6 497 172
Allowance for impairment	(22 445 158)	(5 686 549)
	<b>8 740 436</b>	<b>3 429 986</b>

#### National and Provincial Government

Current (0 -30 days)	986 990	324 237
31 - 60 days	457 245	569 622
61 - 90 days	599 318	73 925
91 - 120 days	270 417	59 306
121 - 180 days	1 662 013	56 577
> 180 days	17 369 013	2 460 831
Allowance for impairment	(2 069 388)	(2 288 255)
	<b>19 275 608</b>	<b>1 256 243</b>

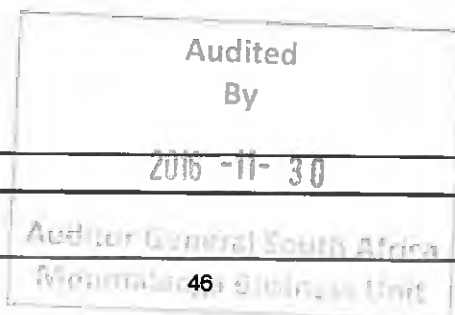
#### Reconciliation of allowance for impairment

Balance at beginning of the year	(205 932 689)	(90 214 329)
Contributions to allowance	(26 109 899)	(115 718 360)
	<b>(232 042 588)</b>	<b>(205 932 689)</b>

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	73 323 710	5 676 388
Short-term deposits	9 563 100	49 723 406
	<b>82 886 810</b>	<b>55 399 794</b>



# Dr. Pixley Ka Isaka Seme Local Municipality

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### 8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FIRST NATIONAL BANK - Primary Account - 5418-0010- 025	84 807 402	8 725 487	6 015 737	73 323 711	5 677 833	6 015 737
FIRST NATIONAL BANK - Money Market - 7441-8206-027	-	20 544 402	26 920 978	-	20 544 402	26 919 530
FIRST NATIONAL BANK - MIG Account - 7438-8117-704	7 991 242	47 906	12 306 644	7 991 242	47 906	12 306 644
FIRST NATIONAL BANK - FMG Account - 7438-8118-827	-	1 434 178	1 355 925	-	1 434 178	1 355 925
FIRST NATIONAL BANK - Money Market - 6231-5391-269	-	(2 393)	-	-	(1 446)	-
FIRST NATIONAL BANK - Account Type - 6209-2639-875	1 499 708	7 499 769	-	1 499 708	7 499 769	-
STANDARD BANK - Account Type - 038-749-688	72 149	20 197 151	-	72 149	20 197 151	-
<b>Total</b>	<b>94 370 501</b>	<b>58 446 500</b>	<b>46 599 284</b>	<b>82 886 810</b>	<b>55 399 793</b>	<b>46 597 836</b>

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**9. Investment property**

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	125 711 437	(16 776 969)	108 934 468	112 403 835	(2 295 318)	110 108 517

**Reconciliation of investment property - 2016**

	Opening balance	Depreciation	Total
Investment property	110 108 517	(1 174 049)	108 934 468

**Reconciliation of investment property - 2015**

	Opening balance	Depreciation	Total
Investment property	111 282 566	(1 174 049)	110 108 517

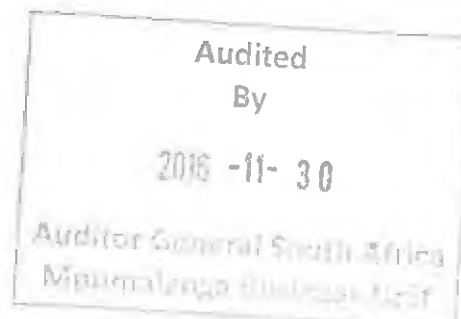
Fair value of investment properties

-

**Details of property**

Included in the above investment property is land to the value of R51,657,432.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



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## Notes to the Annual Financial Statement

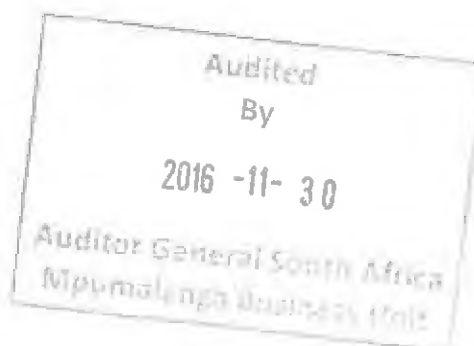
Figures in Rand

### 10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	59 739 043	-	59 739 043	59 820 856	-	59 820 856
Buildings	145 505 973	(60 517 229)	84 988 744	145 568 962	(56 760 447)	88 808 515
Land - Landfill site	10 098 043	(3 470 309)	6 627 734	10 649 990	(2 501 701)	8 148 289
Work In progress	27 280 826	-	27 280 826	3 977 919	-	3 977 919
Furniture and fixtures	1	-	1	-	-	-
Infrastructure	910 201 520	(495 479 200)	414 722 320	906 032 167	(475 316 524)	430 715 643
Other property, plant and equipment	16 489 612	(5 887 767)	10 581 845	16 649 216	(4 544 588)	12 104 628
Leased Assets	173 699	(115 799)	57 900	173 699	(57 899)	115 800
<b>Total</b>	<b>1 168 468 717</b>	<b>(565 470 304)</b>	<b>603 998 413</b>	<b>1 142 872 609</b>	<b>(539 181 169)</b>	<b>603 691 440</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment reversal	Total
Land	59 820 856	-	(81 813)	-	-	-	-	59 739 043
Buildings	88 808 515	-	(57 694)	-	-	(3 762 077)	-	84 988 744
Land - Landfill site	8 148 289	-	-	-	(551 947)	(968 608)	-	6 627 734
Work In Progress	3 977 919	27 472 260	-	(4 169 353)	-	-	-	27 280 826
Furniture and fixtures	-	1	-	-	-	-	-	1
Infrastructure	430 715 643	-	-	4 169 353	-	(20 162 676)	-	414 722 320
Other property plant and Equipment	12 104 628	1 011 228	(534 188)	-	-	(2 023 848)	24 025	10 581 845
Leased assets	115 800	-	-	-	-	(57 900)	-	57 900
	<b>603 691 440</b>	<b>28 483 489</b>	<b>(673 695)</b>	<b>-</b>	<b>(551 947)</b>	<b>(26 975 109)</b>	<b>24 025</b>	<b>603 998 413</b>



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**Notes to the Annual Financial Statement**

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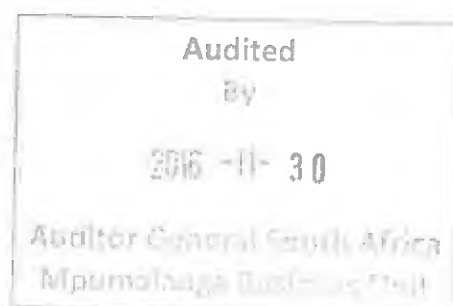
**10. Property, plant and equipment (continued)****Reconciliation of property, plant and equipment - 2016**

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	59 864 934	-	(144 078)	-	-	-	59 820 856
Buildings	92 471 989	-	(82 172)	-	(3 581 302)	-	88 808 515
Land - Landfill site	9 399 139	-	-	-	(1 250 850)	-	8 148 289
Work In Progress	8 524 612	24 929 386	-	(30 476 079)	-	-	3 977 919
Infrastructure	425 308 204	32 138 981	-	-	(19 617 301)	(7 114 241)	430 715 643
Other property, plant and equipment	11 744 105	1 108 789	-	-	(723 215)	(25 051)	12 104 628
Leased asset	1	173 699	-	-	(57 900)	-	115 800
	<b>608 412 984</b>	<b>58 350 866</b>	<b>(226 250)</b>	<b>(30 476 079)</b>	<b>(25 230 868)</b>	<b>(7 139 292)</b>	<b>603 691 660</b>

**Assets subject to finance lease (Net carrying amount)**

Leased photocopier machines	57 900	115 800
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



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**11. Intangible assets**

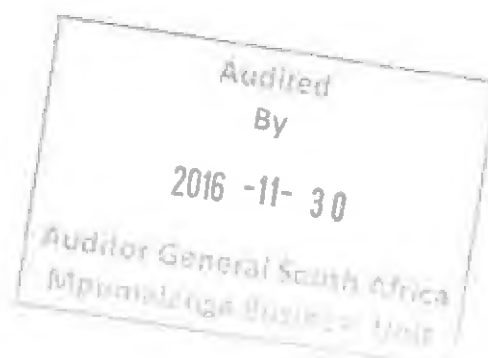
	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 728 146	(1 453 930)	274 216	1 728 146	(877 881)	850 265

**Reconciliation of intangible assets - 2016**

	Opening balance	Amortisation	Total
Computer software, other	850 265	(576 049)	274 216

**Reconciliation of intangible assets - 2015**

	Opening balance	Additions	Amortisation	Total
Computer software, other	865 960	429 207	(444 902)	850 265



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### 12. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	3 485 999	-	3 485 999	3 485 999	-	3 485 999

#### Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage assets	3 485 999	3 485 999

#### Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets	3 485 999	3 485 999

### 13. Payables from exchange transactions

Trade payables	3 126 245	1 654 419
Retentions	1 850 845	1 573 359
Accrued leave pay	4 427 759	6 485 254
Other accrued expenses	12 879 542	6 149 317
Other payables	14 034 436	15 861 470
Staff Bonus Accrual	1 529 090	1 515 697
	<b>37 847 917</b>	<b>33 239 516</b>

### 14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	6 962 756	-
Expanded Public Works Programme	17 345	-
Financial Management Grant	66 142	-
Municipal Systems information Grant	452 752	435 292
Skills Development Grant	264 761	343 203
Integrated National Electrification Programme	-	2 454
Disaster Management Grant	202 052	1 206 081
	<b>7 965 808</b>	<b>1 987 030</b>

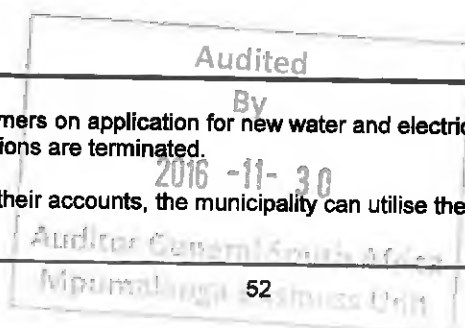
The unspent municipal infrastructure grant is held in a 7 Day Notice ring-fenced investment with FNB until utilised.

### 15. Consumer deposits

Water and Electricity	1 626 975	1 629 117
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Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated.

In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding amount.



# Dr. Pixley Ka Isaka Seme Local Municipality

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## Notes to the Annual Financial Statement

Figures in Rand	2016	2015
<b>16. VAT payable</b>		
VAT payable	7 080 905	2 590 118

VAT is payable on the receipts basis. Only once payment is received from receivables, then the VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

## 17. Employee benefit obligations

### Defined benefit plan

#### Post retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit method.

#### Post retirement gratuity plan

The municipality has an obligation in respect of the entitlement of employees to long service awards (LSA). The LSA is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability. No previous actuarial valuation of the municipality's LSA liability has been performed. This has resulted in a prior period error being recognised for the closing accrued LSA liability as at 30 June 2015 amounting to R3,227,664.

There are 259 employees that are currently entitled to long service awards. The expected remaining working-lifetime eligible employees is 18.7 years.

The municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service inclusive.

The amounts recognised in the statement of financial position are as follows:

<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(20 275 000)	(19 306 000)
Present value of the long service award obligation-wholly funded	(3 227 664)	(3 058 562)
Increase in defined benefit obligation	(524 199)	(969 000)
Increase in long service award obligation	(495 255)	(169 102)
	<b>(24 522 118)</b>	<b>(23 502 664)</b>
Non-current liabilities	(23 365 407)	(19 080 435)
Current liabilities	(1 156 711)	(4 422 229)
	<b>(24 522 118)</b>	<b>(23 502 664)</b>

### Valuation of plan assets

At the valuation date, the medical aid defined benefit plan as well as the long service award obligation of the Municipality was unfunded i.e. no dedicated asset had been set aside to meet this liability.

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### 17. Employee benefit obligations (continued)

Changes in the present value of the DEFINED BENEFIT OBLIGATION are as follows:

Opening balance	(20 275 000)	(19 306 000)
Service cost	(571 000)	(544 000)
Interest cost	(1 859 000)	(1 785 000)
Benefits paid	628 000	794 000
Actuarial gain	1 277 801	566 000
	<b>(20 799 199)</b>	<b>(20 275 000)</b>

### Net expense recognised in the statement of financial performance

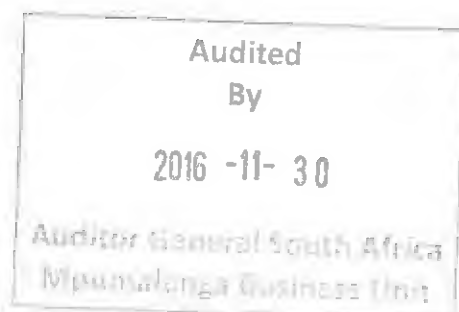
Current service cost - defined benefit plan	(571 000)	(544 000)
Current service cost - long service award	(351 775)	(340 443)
Interest cost - defined benefit plan	(1 859 000)	(1 785 000)
Interest cost - long service award	(292 708)	(272 539)
Actuarial gains - defined benefit plan	1 277 801	566 000
Actuarial losses - long service awards	(80 001)	(23 791)
Benefits paid - defined benefit plan	628 000	794 000
Benefits vesting - long service award	229 229	467 671
	<b>(1 019 454)</b>	<b>(1 138 102)</b>

### Calculation of actuarial gains and losses

Actuarial gains - defined benefit plan	1 277 801	566 000
Actuarial losses - long service awards	(80 001)	(23 791)
	<b>1 197 800</b>	<b>542 209</b>

Changes in the present value of the LONG SERVICE AWARD obligation are as follows:

Opening balance	(3 227 664)	(3 058 562)
Current service cost	(351 775)	(340 443)
Interest cost	(292 539)	(272 539)
Expected benefits vesting	229 229	467 671
Actuarial loss	(80 001)	(23 791)
	<b>(3 722 750)</b>	<b>(3 227 664)</b>



## Dr. Pixley Ka Isaka Seme Local Municipality

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### Notes to the Annual Financial Statement

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<b>17. Employee benefit obligations (continued)</b>		
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Discount rate (D) - defined benefit plan	9.37 %	9.31 %
Discount rates (D) - long service awards	8.54 %	9.63 %
General salary inflation (long term)	7.20 %	- %
Health care cost inflation	8.43 %	8.42 %
Net discount rate - defined benefit plan	0.86 %	0.82 %
Net discount rate - long service award	1.25 %	1.38 %

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### 17. Employee benefit obligations (continued)

#### **DEFINED BENEFIT PLAN - Explanation of assumptions used**

Two of the most important financial variables used in the GRAP 25 valuation is the net discount rate and medical aid inflation rates

The medical aid inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate inflation. South Africa has experienced high health care cost inflation in recent years.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

#### **Discount rate:**

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve. Consequently a discount rate of 9.37% per annum has been used. The corresponding index-linked yield at this term is 1.81%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

#### **Health Care Cost Inflation Rate**

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs. A health care cost inflation rate of 8.43% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.93%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.86% which derives from  $((1+9.37\%)/(1+1.81\%))-1$ .

#### **Maximum Subsidy Inflation Rate**

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R3,871 for the year ending 30 June 2017. The future salary inflation assumption of 7.93% was set to be 1% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 5.95% was assumed.

#### **LONG SERVICE AWARDS - Explanation of assumptions used**

##### **Discount rate**

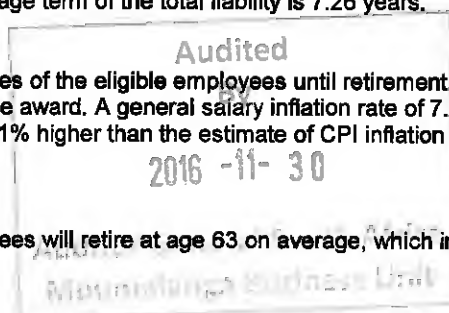
As explained above GRAP 25 stipulates that the discount rate used should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. Consequently, a discount rate of 8.54% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.54% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 1.74%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016. The liability weighted average term of the total liability is 7.26 years.

##### **Salary inflation rate**

The assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award. A general salary inflation rate of 7.20% per annum over the expected term of the liability has been assumed, which is 1% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.25%.

##### **Average retirement age**

The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand	2016	2015
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### 18. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Unwinding of discount	Change In discount factor	Change in estimate	Total
Environmental rehabilitation	20 558 029	379 705	(126 007)	(989 398)	19 822 329

#### Reconciliation of provisions - 2015

	Opening Balance	Unwinding of discount	Total
Environmental rehabilitation	20 237 846	320 183	20 558 029
Non-current liability		19 431 198	20 178 324
Current liability		391 131	379 705
		19 822 329	20 558 029

#### Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The discount rate was deduced from the GOVI long bond. The annualised rate as at 30 June 2016 was 9.83%. The consumer price inflation of 7.71% was also factored into the discount rate which resulted in a net discount rate of 1.97%.

The environmental rehabilitation provision relates to four landfill sites namely Volksrust, Amersfoort, Wakkerstroom and Perdekop. For the Volksrust and Amersfoort sites the number of years until closure is four and thirteen years respectively whilst the Wakkerstroom and Perdekop landfill sites have been closed.

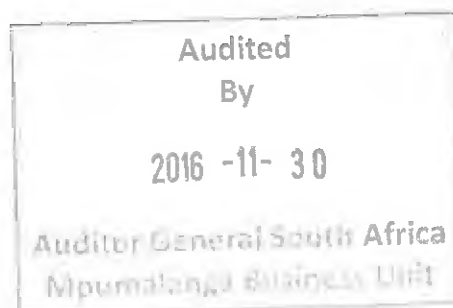
### 19. Provision for water supply

	2016	2015
Provision for water supply	R84,266,215	R 76,131,933

The provision for water supply relates to invoices owing to the Department of Water and Sanitation. Three separate accounts are held with the Department of which details are as follows:

Account number	Account in name of	Balance owing
60000445	Seme municipality (Amersfoort)	R47,466,678
60000963	MP304 - Seme Local Municipality	R32,762,739
60000473	MP304 - Seme Local Municipality	<u>R 4,036,798</u>
		<u>R84,266,215</u>

The amount owing has been recognised as a provision under GRAP 19 and not a payable from exchange transaction as per GRAP 104 as the municipality is currently disputing the amount owing which results in uncertainty with regards to the amount owing to the Department.



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

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## Notes to the Annual Financial Statement

	2016	2015
<b>20. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable Share	91 201 000	81 792 357
Financial Management Grant	1 533 858	1 805 285
Municipal Systems Improvement Grant	912 540	498 709
Expanded Public Works Programme	2 624 655	3 728 251
	<b>96 272 053</b>	<b>87 824 602</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	18 682 244	20 588 333
Municipal District Grant	-	1 531 049
Integrated National Electrification Grant	13 150 454	2 997 546
Disaster Management Grant	1 004 029	-
	<b>32 836 727</b>	<b>25 116 928</b>
	<b>129 108 780</b>	<b>112 941 530</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In terms of the allocation made by National Treasury the funds are also utilised to enable the municipality to execute its functions as the local authority. No funds have been withheld.

All registered indigents receive a monthly subsidy based on the monthly billing, towards the consumer's account, which subsidy is determined annually by council. This subsidy is funded from the grant.

All residential households receive 6 KL of water and 50 KWH of electricity (indigents only) free every month.

### Municipal Infrastructure Grant

Balance unspent at beginning of year	-	2 364 333
Current-year receipts	25 645 000	18 224 000
Conditions met - transferred to revenue	(18 682 245)	(20 588 333)
	<b>6 962 755</b>	<b>-</b>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of upgrading of poor households, micro enterprises, social institutions and to provide for the rehabilitation and upgrading of municipal infrastructure.

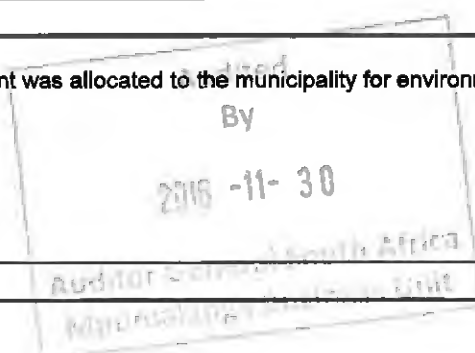
### Expanded Public Works Programme Grant

Balance unspent at beginning of year	-	174 251
Current-year receipts	2 642 000	3 554 000
Conditions met - transferred to revenue	(2 624 655)	(3 728 251)
	<b>17 345</b>	<b>-</b>

The expanded public works programme grant was allocated to the municipality for environmental projects.

### Finance Management Grant

Balance unspent at beginning of year	-	205 285
Current-year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(1 533 858)	(1 805 285)
	<b>66 142</b>	<b>-</b>



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>20. Government grants and subsidies (continued)</b>		
The financial management grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	435 292	-
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(912 540)	(498 708)
	<b>452 752</b>	<b>435 292</b>

The municipal systems improvement grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.

### Skills Development Grant

Balance unspent at beginning of year	343 203	35 815
Current-year receipts	614 808	307 388
Conditions met - transferred to revenue	(693 250)	-
	<b>264 761</b>	<b>343 203</b>

The skills development grant has been allocated to the municipality to further develop specific skillsets of staff members within the municipality.

### Integrated National Electrification Programme

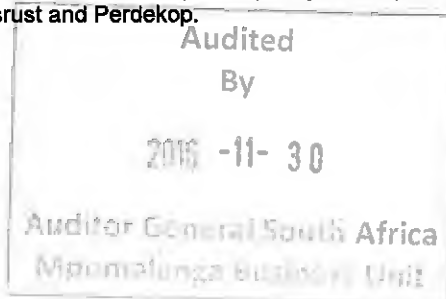
Balance unspent at beginning of year	2 454	-
Current-year receipts	13 148 000	3 000 000
Conditions met - transferred to revenue	(13 150 454)	(2 997 546)
	<b>-</b>	<b>2 454</b>

The integrated national electrification programme grant has been provided to the municipality for purposes of providing new households with access to electricity.

### Disaster Management Grant

Balance unspent at beginning of year	1 206 081	1 206 081
Conditions met - transferred to revenue	(1 004 029)	-
	<b>202 052</b>	<b>1 206 081</b>

The disaster management grant has been provided to the municipality for purposes of reconstructing and rehabilitation of municipal infrastructure that was damaged during the March 2014 flooding. Specific projects being undertaken relates to upgrading of the community access bridge for Wakkerstroom (ward 5), re-gravelling and grading of inner roads in Volksrust as well as paving and filling of potholes in Volksrust and Perdekop.



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>21. Service charges</b>		
Sale of electricity	43 964 102	44 491 904
Sale of water	26 641 289	30 380 000
Sewerage and sanitation charges	12 148 987	11 515 398
Solid waste	7 117 376	6 752 925
Service charges - arrangement payments	1 416 984	-
	<b>91 288 738</b>	<b>93 140 227</b>

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

## 22. Property rates

### Rates billed

Residential	19 505 309	14 752 345
Commercial	6 831 955	7 255 296
State	6 794	787 563
Farmers	8 526 814	7 333 804
Less: Income forgone.	(1 811 089)	-
	<b>33 059 783</b>	<b>30 129 008</b>
Property rates - penalties imposed	-	140
	<b>33 059 783</b>	<b>30 129 148</b>

### Valuations

General valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2014. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

## 23. Interest received (trading)

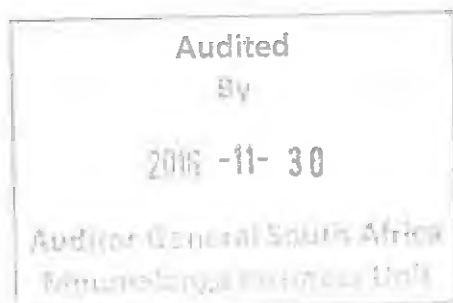
Interest charged on trade and other receivables	24 130 058	14 641 563
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The interest received (trading) income represents interest levied on consumer debtor accounts who are in arrear with payments due to the municipality.

## 24. Investment revenue

### Interest revenue

Bank	5 633 780	3 097 181
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# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>25. Licensing and permits</b>		
Licences and permits	5 332 355	5 134 908

The municipality has entered into an agreement with the Mpumalanga Department of Safety, Security and Liason ("the Department"). The agreement is entered into every five years, signed within three months of the new term of office for Local Government.

In terms of the agreement the Department is responsible for registration, licensing, and testing functions in terms of applicable national and provincial road traffic legislation. In order to provide greater access to clients throughout the Province, the Department transferred specified registration, licensing and testing functions to appropriately identified agents, who process these functions for and on behalf of the Department.

As a result of the abovementioned agreement the municipality acts as an agent on behalf of the department. The agent is thus entitled to 20% (incl VAT) of the total collected fees in terms of clause 6.2 in respect of motor vehicle registration and licensing fees, as specified in the relevant schedules contained in the applicable national and provincial road traffic legislation.

## 26. Rental of facilities and equipment

<b>Facilities and equipment</b>	19 435	21 627
Rental of facilities	-	-
Premises	-	-
Garages and parking	-	-
Facilities and equipment	19 435	21 627

## 27. Revenue

Service charges	91 288 738	93 140 227
Rental of facilities and equipment	19 435	21 627
Interest received (trading)	24 130 058	14 641 563
Licences and permits	5 547 900	5 134 908
Fair value adjustment	22 810	64 651
Miscellaneous other revenue	2 812 176	2 529 566
Interest received - investment	5 633 780	3 097 181
Property rates	33 059 783	30 129 008
Property rates - penalties imposed	-	140
Government grants & subsidies	129 108 780	112 941 530
Fines, Penalties and Forfeits	284 277	577 897
	<b>291 907 737</b>	<b>262 278 298</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	91 288 738	93 140 227
Rental of facilities and equipment	19 435	21 627
Interest received (trading)	24 130 058	14 641 563
Licences and permits	5 547 900	5 134 908
Fair value adjustment	22 810	64 651
Miscellaneous other revenue	2 812 176	2 529 566
Interest received - investment	5 633 780	3 097 181
	<b>129 454 897</b>	<b>118 629 723</b>

Audited  
By  
2016 -11- 30  
Auditor General South Africa  
Mpumalanga Business Unit

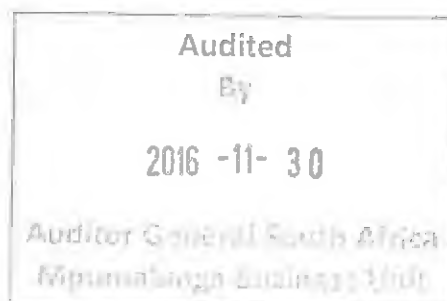
# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>27. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	33 059 783	30 129 008
Property rates - penalties imposed	-	140
<b>Transfer revenue</b>		
Government grants & subsidies	129 108 780	112 941 530
Fines, Penalties and Forfeits	284 277	577 897
	<b>162 452 840</b>	<b>143 648 575</b>



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>28. Employee related costs</b>		
Basic	45 139 511	44 894 022
Bonus	3 202 603	3 199 147
Medical aid - company contributions	2 919 877	2 489 096
UIF	416 498	417 129
SDL	602 636	624 956
Leave pay provision charge	(1 640 994)	1 904 740
Bargaining council levy	24 617	24 322
Defined contribution plans	9 438 075	9 270 695
Overtime payments	2 804 497	3 033 301
Housing benefits and allowances	279 630	199 391
Locomotion allowance	2 098 553	1 515 586
Standby allowance	1 826 317	3 467 551
	<b>67 111 820</b>	<b>71 039 936</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	889 792	924 312
Car Allowance	119 491	-
Contributions to UIF, Medical and Pension Funds	187 409	194 290
	<b>1 196 692</b>	<b>1 118 602</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	377 721	297 287
Car Allowance	82 500	64 167
Contributions to UIF, Medical and Pension Funds	94 554	69 789
Other	134 031	129 410
	<b>688 806</b>	<b>560 653</b>
<b>Remuneration of the Technical Services</b>		
Annual Remuneration	684 184	661 456
Car Allowance	98 000	84 000
Contributions to UIF, Medical and Pension Funds	162 584	151 081
	<b>944 768</b>	<b>896 537</b>
During the year under review the director of technical services took unpaid leave.		
<b>Remuneration of the Community Services</b>		
Annual Remuneration	661 585	664 392
Car Allowance	118 500	84 000
Contributions to UIF, Medical and Pension Funds	172 467	148 145
Other	6 530	-
	<b>959 082</b>	<b>896 537</b>
<b>Remuneration of the Corporate Services</b>		
Annual Remuneration	714 071	615 414
Car Allowance	84 000	118 500
Contributions to UIF, Medical and Pension Funds	161 011	162 623
	<b>959 082</b>	<b>896 537</b>



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>29. Bulk purchases</b>		
Electricity	44 750 582	36 771 118
Water	19 715 115	12 074 771
	<b>64 465 697</b>	<b>48 845 889</b>

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from the Department of water and sanitation in addition to natural water resources being used from local dams.

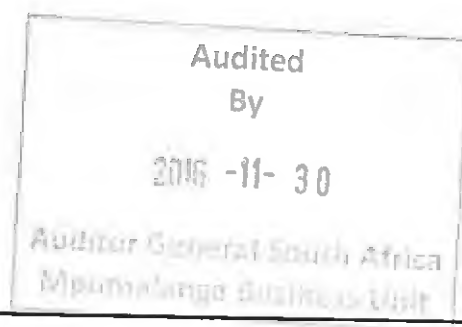
### 30. Depreciation and amortisation

Property, plant and equipment	25 982 476	31 076 699
Investment property	1 174 049	1 174 049
Intangible assets	576 048	444 902
Land - Landfill site	968 608	1 250 851
	<b>28 701 181</b>	<b>33 946 501</b>

Included in the depreciation amount of R25,982,476 above is an amount of R24,025 for the reversal of an impairment loss. Please refer to the property, plant and equipment note 10 for further details.

### 31. General expenses

Advertising	8 325	174 644
Auditors remuneration	3 789 220	3 551 620
Bank charges	489 152	511 117
Cleaning	62 085	1 524 853
Commission paid	577 471	-
Consulting and professional fees	614 359	784 772
Entertainment	69 720	54 926
Insurance	1 305 230	767 294
Medical aid contribution	692 281	675 804
Postage and courier	397 167	528 703
Printing and stationery	518 098	433 528
Subscriptions and membership fees	836 856	1 627 157
Telephone and fax	1 087 990	1 139 611
Training	335 052	219 237
Travel - local	1 071 851	1 115 001
Bursaries	28 367	53 368
Departmental consumption	505 912	945 062
Ward council members	1 218 000	1 174 000
Other expenses	14 919 428	12 191 779
	<b>28 526 564</b>	<b>27 472 476</b>



### 32. Debt impairment

Debt impairment	28 375 951	132 912 491
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The debt impairment represents the charge to the statement of financial performance due to the increase in provision for debt impairment which has been calculated with reference to non-payment rates on an individual customer basis.

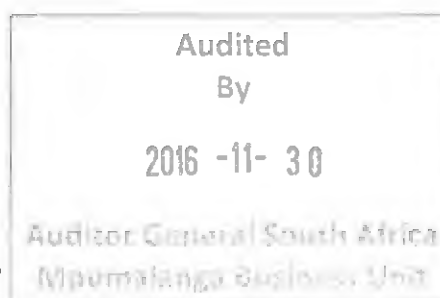
# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>33. Contracted services</b>		
Security Services	3 571 491	2 994 867
Cleaning and Chemicals Services	4 277 750	2 544 900
Other Contractors	4 086 351	3 343 842
	<b>11 935 592</b>	<b>8 883 609</b>
<b>34. Remuneration of councillors</b>		
Executive Mayor	782 480	758 677
Mayoral Committee Members	1 185 956	1 126 680
Speaker	630 877	599 264
Councillors	4 865 107	4 497 321
	<b>7 464 420</b>	<b>6 981 942</b>
<b>In-kind benefits</b>		
The remuneration of councillors is based on Government Gazette 39548, dated 21 December 2015 and is within the upper limits of salaries, allowances and benefits as determined by SALGA.		
<b>35. Grants and subsidies paid</b>		
Other subsidies	1 633 991	-
VIP Toilets for wards 9 and 11	1 633 991	-
Total Grants and subsidies		
The transfer and subsidy expense of R1,633,991 relates to toilets constructed on the premises of residents living in wards 9 and 11. These toilets are not regarded as an asset of the municipality as the residents of these wards retain control over the use and economic benefits arising from the use of these toilets.		
<b>36. Auditors' remuneration</b>		
Fees	3 789 220	3 551 620
<b>37. Cash generated from operations</b>		
Surplus (deficit)	39 324 329	(77 657 446)
<b>Adjustments for:</b>		
Depreciation and amortisation	28 701 181	33 946 501
Loss on disposal of assets	534 189	263
Reduction in landfill site closure costs	(563 458)	-
Traffic fines	(299 650)	(569 472)
Debt impairment	28 375 951	132 912 491
Movements in employee benefit obligation	1 019 454	1 138 102
Leave accrual charge	2 057 495	-
Interest - debtors and landfill site	(23 750 353)	(12 881 783)
Bulk purchases raised	8 134 479	(7 740 429)
Fair value adjustment on other financial assets	(22 810)	(64 651)
<b>Changes in working capital:</b>		
Inventories	614 000	(127 713)
Receivables from exchange transactions	(41 278 164)	(29 271 978)
Other receivables	(234 288)	1 701 864
Other receivables from non-exchange transactions	256 809	(6 067 383)
Payables from exchange transactions	13 040 569	1 669 527
	<b>55 928 028</b>	<b>36 987 893</b>



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>38. Commitments</b>		
<b>Authorised capital expenditure</b>		
Already contracted for but not provided for		
• Property, plant and equipment - Infrastructure	7 785 611	-
• Property, plant and equipment - Movable assets	4 737 990	-
	<b>12 523 601</b>	<b>-</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	12 523 601	-
<b>Authorised operational expenditure</b>		
Already contracted for but not provided for		
• Operating	17 607 509	25 051 705
<b>Total operational commitments</b>		
Already contracted for but not provided for	17 607 509	25 051 075
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	12 523 601	-
Authorised operational expenditure	17 607 509	25 051 705
	<b>30 131 110</b>	<b>25 051 705</b>

The commitment for movable assets consists of three refuse compactor trucks being purchased at a total cost of R4,737,990. The municipality only took delivery of these refuse trucks on Friday the 1st of July 2016.

### Operating leases - as lessee (expense)

#### Minimum lease payments due

- within one year	4 104	-
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Operating lease payments represent rentals payable by the municipality for two of its office photocopiers. These two leases are currently running on a month to month basis whereby Konica Minolta is the lessor. The total monthly commitment is R4,104 per month. No contingent rent is payable.

### Operating leases - as lessor (Income)

#### Minimum lease payments due

- within one year	804 719	-
- in second to fifth year inclusive	223 300	-
	<b>1 028 019</b>	<b>-</b>

Certain of the municipality's land is held to generate rental income. Rental of land (largely for grazing purposes) was rented out at R150 per hectare per year during the 2015 - 2016 financial year whilst the rate is escalating to R159 per hectare per year for the 2016 - 2017 financial year. Lease agreements are negotiated and signed for twelve months at a time. There are no contingent rents receivable.

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

2016

2015

### 39. Contingencies

#### Claim for damages (Nicolas Soldatos)

10 099 995

10 099 995

Legal proceedings have been instituted against the municipality over the death of Nicolas Soldatos, who has left three dependants behind.

#### Claim for service rendered (Human Broers Beherend)

73 071

73 071

Legal proceeding instituted against the Municipality by Human Broeers regarding unpaid due for work performed for the Municipality.

#### Claim for damages (Unmarked bridge)

56 200

56 200

Claim for damages caused as a result of an unmarked bridge and road works by Barry Roberts.

#### Gabriel Du Toit claim

29 190

29 190

Gabriel Michael Du Toit alleges that a municipal employee negligently caused an accident. The matter is awaiting a court date.

#### Afriforum

Claim by AfriForum from the Municipality for non disclosure of information. The amount of the claim is not known at this stage. The parties are awaiting a court date.

#### Mostert claim

Mr. Mostert alleges to have been injured after falling in an open manhole.

75.000

#### Ulwazi Protection Services

90 997

90 997

The invoice for Ulwazi Protection Services is contested by the Municipality on the basis of the hours submitted and the total amount owing. The Municipality believes the probability of paying the exact amount is remote and that if the amount is paid, it will be at a reduced invoice amount.

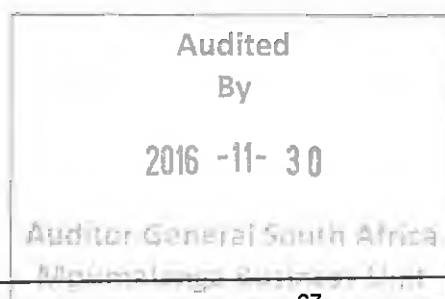
### Contingent assets

The Municipality has made a claim against JF Buthelezi for misappropriation of funds. The Municipality is of the opinion that the amount are probable to be recoverable. The amount is R1 358 730 which is similar prior financial year as at 30 June 2014.

JF Buthelezi

1 358 730

1 358 730



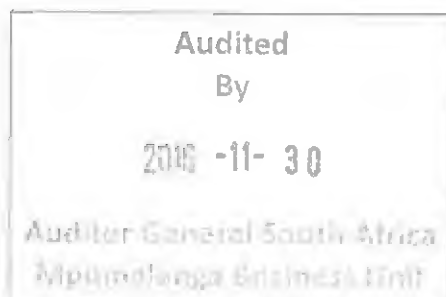
# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

	2016	2015
<b>40. Related parties</b>		
<b>Related party transactions</b>		
<b>Catering services</b>		
Izingcithabuchopho Construction and Catering	-	12 637
Zimele Catering CC	-	6 300
Employee and councillor related disclosures have been disclosed as such under the employee cost note.		
<b>Remuneration of management</b>		
<b>41. Prior period errors</b>		
<b>Trade and sundry creditors</b>		
Reconciling differences were note on the trade and sundry creditor balances in the prior year resulting in the contra entry being accounted for in accumulated surplus		
Decrease in accumulated surplus	R50,804.21	
Increase in trade creditors	(R44,835.86)	
Increase in sundry creditors	(5,968.35)	
<b>Revaluation reserve</b>		
The revaluation reserve previously accounted for in the Statement of Changes in Net Assets is inconsistent with the requirement of GRAP 17 and Directive 7. The related "realisation of revaluation reserve" entries processed through the Statement of Financial Performance during 2014 and 2015 have been reversed together with the revaluation reserve.		
Decrease in revaluation reserve - NDR	R1,065,569,411	
Increase in accumulated surplus	(R1,082,486,550)	
Reversal of realisation reserve	R16,917,139	-



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 41. Prior period errors (continued)

#### Consumer debtors

A prior period error of R3,062,328 was noted on the 30 June 2015 reconciliation of consumer debtor reports per the debtors sub-system versus the debtor balances reflected in the general ledger votes as per Munsoft. The effect of the prior period error is as follows:

Decrease in accumulated surplus	R3,062,354
Decrease in consumer debtors	(R3,062,354)

#### Short-term deposits

Standard Bank moneymarket call account with account number 038749688 002 was not included in the prior year financial statements. The result is that this account had accumulated interest with an amount R8,572.71 which has now been accounted for. The effect on the 2015 financial year is as follows:

Increase in short-term deposits	R8,572
Increase in interest on investments	R8,572

#### Long service award obligation

During the financial year an actuarial valuation was performed on the long service awards obligation for the first time which resulted in an opening liability as at 1 July 2014 of R3,058,562 which has been accounted for as a prior year error having the following effects on the 2015 comparative:

Decrease in accumulated surplus	R3,058,562
Increase in long service award obligation	(R3,227,664)
Increase in actuarial loss	R23,791
Increase in current service cost	R145,311

#### Movable assets

During the financial year certain restatements were made to movable assets in the prior year. The impact on the comparative year is as follows:

Movables assets - cost	R212,712
Movable assets - accumulated depreciation	(R -68 315)
Accumulated surplus	(R-161,445)
Depreciation	R17,079

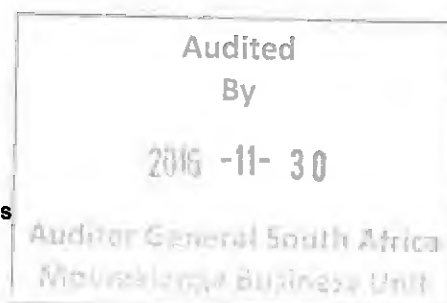
#### Leased assets

Photocopiers are being leased from Nashua which were incorrectly accounted for as an operating leases in the prior year. The lease has now been accounted for as a finance lease in accordance with GRAP 13 which has resulted in a prior year error with the following effect:

Increase in leased assets - Photocopiers	R173,699
Increase in finance lease liability	(R173,699)
Increase in lease interest	R24,708
Decrease in rental equipment expense	(R68,564)
Decrease	

#### Statement of financial position

Revaluation reserve - NDR	-
Trade and sundry creditors	-
Consumer debtors	-
Short-term deposits	-
Employee benefit obligation - long service awards	-
Accumulated Surplus	-
Movable assets - cost	-
Movable assets - accumulated depreciation	-
Leased asset - photocopiers	-
Lease liability	-
Leased asset - accumulated depreciation	-



-	1 065 569 411
-	(50 804)
-	(3 062 354)
-	8 572
-	(3 227 664)
-	(1 076 476 275)
-	212 712
-	(68 315)
-	173 699
-	(129 843)
-	(57 900)
-	-

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 41. Prior period errors (continued)

#### Statement of Financial Performance

Reversal of revaluation reserve	-	16 917 139
Interest on investments	-	8 572
Actuarial loss	-	23 791
Current service cost	-	145 311
Lease interest	-	24 708
Rental equipment	-	(68 564)
Leased asset - depreciation	-	57 900

### 42. Comparative figures

Certain comparative figures have been reclassified.

A. Traffic fines which is a non-exchange receivable was incorrectly disclosed as an exchange receivable in the prior year.

B. Assessment rates receivables have been reclassified to consumer debtors.

C. The leave liability was incorrectly disclosed as a provision in the prior year. In line with the requirements of GRAP 19 the leave liability has subsequently been accounted for as a leave accrual.

D. Interest on the landfill rehabilitation provision was incorrectly included as part of bank charges in the prior financial year.

E. The vote used for payments made to the provincial department of transport for licensing fees was incorrectly disclosed under other expenses as opposed to being deducted from license and permit revenue.

F. Contracted services for chemicals amounting to R2,544,900 as well as security services of R2,994,867 was separately disclosed resulting in a decrease of general expenses and an increase of contracted services.

G. An amount of R152 for sanitation - honeysucker (which was previously recognised in work in progress) has now been reclassified to movable assets.

The effects of the reclassification are as follows:

#### Statement of financial position - extract

	Comparative figures previously reported	Reclassificati on	After reclassificatio n
Payables from exchange transactions	26 703 458	6 485 254	33 188 712
Provision for leave pay	6 485 254	(6 485 254)	-
Receivables from exchange transactions	2 968 897	(76 964)	2 891 933
Receivables from non-exchange transactions	7 829 842	(7 752 878)	76 964
Consumer debtors	216 643 163	7 829 842	224 473 005
Work in progress	3 978 071	(152)	3 977 919
Other property, plant and equipment	16 436 352	152	16 436 504
<b>Total</b>	<b>281 045 037</b>	<b>-</b>	<b>281 045 037</b>

Audited  
By

2016 -11- 30

Auditor General South Africa  
Municipalities Division

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 42. Comparative figures (continued)

#### Statement of financial performance - extract

	Comparative figures previously reported	Reclassificati on	After reclassificatio n
Bank charges	831 300	(320 183)	511 117
Interest on landfill rehabilitation provision	-	320 183	320 183
Other expenses	12 693 630	(578 598)	12 115 032
License and permit fees	(5 713 506)	578 598	(5 134 908)
General expenses - security services	2 994 867	(2 994 867)	-
Contracted services - security services	-	2 994 867	2 994 867
General expenses - chemicals	2 544 900	(2 544 900)	-
Contracted services - chemicals	-	2 544 900	2 544 900
<b>Total</b>	<b>13 351 191</b>	<b>-</b>	<b>13 351 191</b>

### 43. Risk management

#### Financial risk management

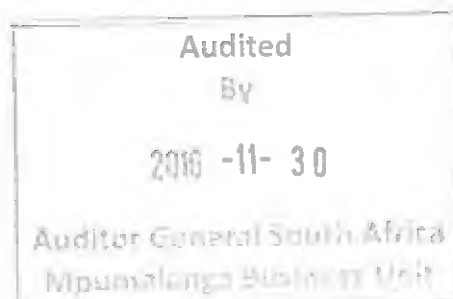
##### Credit risk

The risk of the municipality consist mainly of cash deposits, cash equivalents and consumer deposits. The municipality only deposits cash with major banks register in South Africa with high quality credit standing and limits exposure to any one counter party. All the deposits are short term in nature to ensure municipality cash flow is not affected.

Consumer debtors comprise a widespread community base, industrial and government consumers. Municipality manages its credit risk through payment of deposits and disconnection of services in the cases of non-payments.

Financial assets exposed to credit risk at year were as follows:

	2016 R	2015 R
<b>Cash and cash equivalents</b>		
First National Bank (as per bank balance held with counterparty)	R94,298,352	R38,249,349
Standard Bank of South Africa(as per bank balance held with counterparty)	R 72,149	R 20,197,000
<b>Consumer Debtors</b>		
Consumer debtors	R79,795,557	R42,763,286





# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 43. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The municipality has healthy liquidity status as current assets exceed the current liabilities. Regardless of other current assets, the municipality has actual cash that exceeds the current liabilities. The below is the net current assets of the municipality by financial year end.

	2016 R	2015 R
Current assets	R167,662,057	R103,456,831
Current liability	R 56,142,789	R44,377,558

### 44. Going concern

The annual financial statement have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	2 336	11 348
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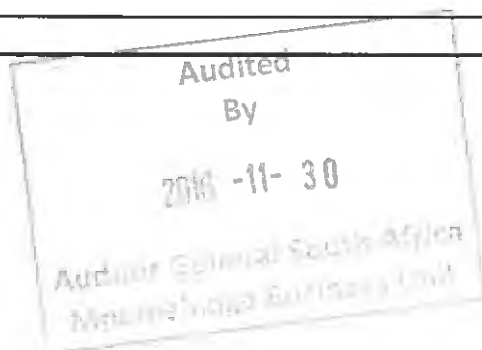
Fruitless and wasteful expenditure of R2,336 incurred during the financial year is under investigation by council.

Interest charged on Telkom invoices R2,270

Interest charged on Eskom invoices R66.

### 46. Irregular expenditure

Opening balance	26 017 321	10 072 201
Less written off	(21 283 536)	(6 120 134)
Incurred during the year	14 484 401	22 065 254
	<b>19 218 186</b>	<b>26 017 321</b>



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 46. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

1. The irregular expenditure was incurred as a result of a quotation that was awarded to a service provider by a municipal official for providing catering without following the SCM processes.	Text 2	6 000
2. Procurement of tyres for vehicle with reg no FHT244MP took place without an official purchase order.		9 902
3. Notice for the draft IDP for the 2016 - 2017 stakeholder engagement programme was advertised without approval.		1 508
4. Irregular expenditure for capital projects reported in the prior year but paid in the current year		1 730 230
5. Non compliance -The bid specification does not specify the minimum threshold for local production and content		12 736 761
		<b>14 484 401</b>

#### Details of irregular expenditure written off

	Details	
Award for more than R2000 made to a person who is a spouse of an employee of the municipality.	Izingcithabuchopho construction and catering delivered material for tiling of offices	12 637
Award made to a person who is an employee of the municipality.	Zimele catering for catering of training held in Daggakraal	6 300
Services were procured without sourcing three quotations as per SCM policy.	MFMP training for HOD's, MM and councillors	138 480
Awards made to suppliers that are in service of the state	Temane transport for transport hire of municipal workers attending training in Ermelo	18 690
Awards made to suppliers that are in service of the state	Thulas Corporate Solutions	70 875
Monde Consulting Engineers	Construction of toilets in wards 9,10 and 11 and farms, installation of boreholes and construction of sewer	12 625 328
Nqondonqondo Business Enterprise	Sewer in Perdekop and Wakkerstroom	8 411 226
		<b>21 283 536</b>

### 47. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses expressed as a percentage

Water material losses expressed as a percentage	Audited	45.42%	26%
Electricity material losses expressed as a percentage	By	28.34%	43.63%

Total water purified was 4,579,000 KL whilst water sold was 2,499,297 KL resulting in a distribution loss of 2,079,703 KL which equates to a distribution loss percentage of 45.42%. The cost per kilolitre (KL) of water to the municipality was calculated as R5,69 per KL.

The electricity distribution loss of 28.34% was calculated by technical services.

The cost of electricity per KWH was calculated as R1.20 per kwh. This unit cost was calculated by dividing the total cost of the electricity department of R54,912,689 by the total kilowatts purchased from Eskom which amounted to 45,768,538 Kwh.

# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Audit fees

Current year subscription / fee	3 789 220	3 551 620
Amount paid - current year	(3 789 220)	(3 551 620)
	-	-

#### PAYE and UIF

Opening balance	-	582 721
Current year subscription / fee	8 955 370	8 890 422
Amount paid - current year	(8 955 370)	(9 473 143)
	-	-

#### Pension and Medical Aid Deductions

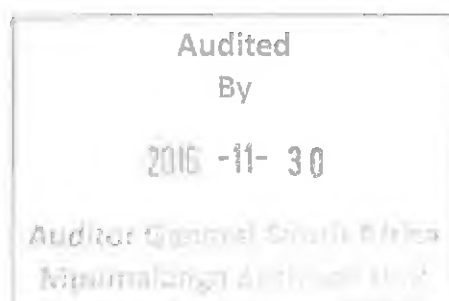
Current year subscription / fee	21 316 005	20 613 079
Amount paid - current year	(21 316 005)	(20 613 079)
	-	-

#### VAT

VAT payable	7 080 905	161 688
-------------	-----------	---------

VAT output payables and VAT input receivables are shown in note .

All VAT201 returns have been submitted by the due date throughout the year. VAT is payable on the receipts basis. Only once payment is received from receivables, VAT is paid over to SARS.



# Dr. Pixley Ka Isaka Seme Local Municipality

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Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding more than 90 days	Total
MS Motha	- 16	16
GO Ngwenya	- 38	38
PV Malatsi	- 2 667	2 667
EM Madonsela	- 10 891	10 891
TE Mbokane	- 82	82
	- 13 694	13 694

30 June 2015	Outstanding more than 90 days	Total
MS Mdebele	- 952	952
MS Motha	- 20	20
GO Ngwenya	- 6 304	6 304
ZH Luhlanga	- 89	89
TE Mbokane	- 105	105
EM Madonsela	- 1 800	1 800
	- 9 270	9 270

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Deviations amounting to R149,130 was subsequently written off by council during the financial year. The detailed register of deviations is available for inspection at the office of the Municipal Manager.

Incident		
Emergency	60 000	111 549
Impracticable	53 580	2 258
Sole provider	35 550	24 134
	149 130	137 941

### 48. Assets subject to restrictions

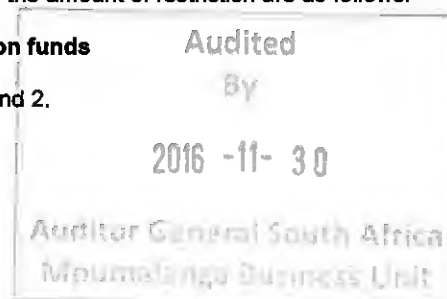
Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

### 49. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.

### 50. Budget differences

#### Material differences between budget and actual amounts



# Dr. Pixley Ka Isaka Seme Local Municipality

(Registration number MP304)

Annual Financial Statement for the year ended 30 June 2016

## Notes to the Annual Financial Statement

Figures in Rand

### 50. Budget differences (continued)

Material differences between the budget and actual amounts

All budget fluctuations above 10% in comparison to actual results for the year were considered material by management and explained below:

#### 1. Service charges

The variance is due to the budgeted amount determined based on estimated revenue in the previous financial year.

#### 2. Rentals of facilities

Management has over-budgeted for rental of facilities in the current financial year.

#### 3. Interest received - Trading

The increase in trading interest is due to the ageing of the debtors book as a result of a high non-payment of services.

#### 4. Miscellaneous other revenue

Management anticipated reviewing the previous year's other revenue and movements up to midyear but was still above the budget.

#### 5. Interest received - Investment

During the financial year the municipality invested surplus cash which generated more interest than anticipated.

#### 6. Government grant and subsidies

#### 7. Employee related costs

The variance between the budgeted amount and the actual employee cost is 16%. The variance is due to the fact that terminations resulted in vacant posts that were not filled in the current financial year.

#### 8. Repairs and maintenance

Management has increased repairs and maintenance during budget adjustment for "war on leaks".

#### 9. Bulk purchases

Included in the bulk purchases is an amount of R8 million relating to the increase in the provision for the liability owing to Dept of Water and Sanitation.

#### 10. Transfer and subsidies

The expense was higher than the budgeted amount as the budget was based on the approved indigents at the time the budget was done.

#### 11. General expenses

The reduction in general expenses was due to various cost containment measures implemented and carried through during the year under review.

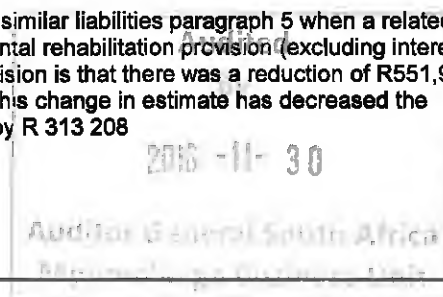
#### 12. Licenses and permits

The budgeted amount includes the payments made to Prodiba and the Provincial Department of Community Safety

### 51. Change in estimate

#### Property, plant and equipment

In line with IGRAP 2 changes in existing decommissioning, restoration and similar liabilities paragraph 5 when a related asset (landfill site) is measured using the cost model changes in the environmental rehabilitation provision (excluding interest cost) shall be deducted from the cost of the related asset. The effect of this revision is that there was a reduction of R551,947 in the rehabilitation cost relating to the Volksrust and Amersfoort landfill sites. This change in estimate has decreased the depreciation charge on the landfill site for the current and future periods by R 313 208



# Dr. Pixley Ka Isaka Seme Local Municipality

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## Notes to the Annual Financial Statement

Figures in Rand

### 52. Finance costs

Finance leases	18 295	24 708
Interest on landfill rehabilitation provision	379 705	320 183
	<b>398 000</b>	<b>344 891</b>

### 53. Finance lease obligation

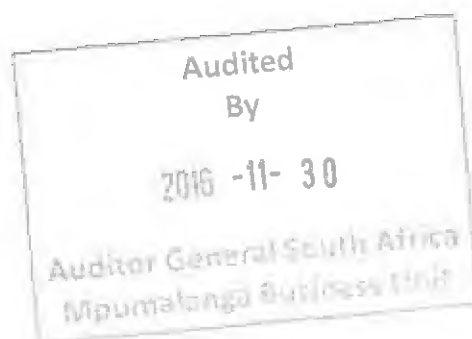
<b>Minimum lease payments due</b>		
- within one year	6 233	74 796
- in second to fifth year inclusive	-	6 233
	6 233	81 029
less: future finance charges	(89)	(7 687)
<b>Present value of minimum lease payments</b>	<b>6 144</b>	<b>73 342</b>
<b>Present value of minimum lease payments due</b>		
- within one year	6 144	73 342

The municipality entered into a 36 month lease contract with Nashua which has a commencement date of 1 August 2014. The legal nature of the lease agreement is an operating lease but substance over form prevails in the context of GRAP 13. The lease agreement meets the requirements of a finance lease and has been accounted for as such in accordance with GRAP 13.

The average lease term is three years. The prime interest rate of 9.25% was used to perform the discounting of the present value of future minimum lease payments.

The lease arrangement with Nashua have fixed repayments .

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .



**Unaudited Schedule**  
**Dr. Pixley Ka Isaka Seme Local Municipality**  
**Appendix A**  
June 2016

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>											
Land (Separate for AFS purposes)	59 620 856	-	(81 813)	-	59 739 043	-	-	-	-	-	59 739 043
Landfill Sites (Separate for AFS purposes)	10 848 889	-	(551 947)	-	10 096 942	(2 601 700)	-	(868 806)	-	(3 470 506)	6 627 734
Buildings (Separate for AFS purposes)	145 866 991	-	(52 989)	-	145 814 002	(66 760 447)	(5 286)	(3 782 077)	-	(60 527 810)	84 986 742
	<b>216 336 736</b>	<b>-</b>	<b>(636 749)</b>	<b>-</b>	<b>215 699 253</b>	<b>(69 262 147)</b>	<b>(5 292)</b>	<b>(4 730 883)</b>	<b>-</b>	<b>(63 990 127)</b>	<b>151 355 516</b>
<b>Infrastructure</b>											
Roads, Pavements & Bridges	372 014 455	-	-	-	372 014 455	(209 514 525)	-	(7 470 888)	-	(216 985 511)	155 028 944
Water	355 276 493	-	-	1 385 143	356 661 636	(174 584 055)	-	(7 362 256)	-	(181 926 327)	174 738 309
Electricity	178 739 221	-	-	2 783 210	181 522 431	(91 237 842)	-	(5 325 622)	-	(95 867 364)	84 955 067
	<b>906 030 169</b>	<b>-</b>	<b>-</b>	<b>4 168 353</b>	<b>910 201 824</b>	<b>(475 316 422)</b>	<b>-</b>	<b>(20 158 766)</b>	<b>-</b>	<b>(408 479 202)</b>	<b>414 722 326</b>
<b>Work in Progress</b>											
Infrastructure	3 977 919	27 472 259	-	(4 189 353)	27 260 825	-	-	-	-	-	27 260 825
	<b>3 977 919</b>	<b>27 472 259</b>	<b>-</b>	<b>(4 189 353)</b>	<b>27 260 825</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27 260 825</b>

Unaudited Schedule  
Dr. Pixley Ka Isaka Seme Local Municipality  
Appendix A  
June 2016

Analysis of property, plant and equipment as at 30 June 2016  
Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Heritage assets</b>											
Other	3 485 999	-	-	-	3 485 999	-	-	-	-	-	3 485 999
	3 485 999	-	-	-	3 485 999	-	-	-	-	-	3 485 999
<b>Other assets</b>											
Communication Equipment	11 307	38 153	(11 307)	-	38 153	(4 248)	5 306	(2 194)	45	(1 067)	37 085
Fire Fighting and Safety Equipment	28 571	-	(18 172)	-	10 399	(16 274)	10 523	(2 448)	144	(8 089)	5 343
Garden Equipment and tools	32 238	-	(5 562)	-	26 676	(15 038)	2 879	(3 217)	281	(18 095)	11 640
IT Equipment	1 089 166	514 827	(403 826)	-	1 179 167	(423 085)	189 621	(116 006)	5 926	(343 544)	835 622
Kitchen Equipment	188 065	-	(85 508)	-	102 557	(85 063)	39 444	(21 385)	900	(76 204)	44 354
Maintenance Equipment	324 862	6 527	(99 642)	-	231 747	(151 762)	58 271	(28 664)	1 476	(116 678)	113 118
Sports Equipment	7 625	-	(3 815)	-	3 810	(2 839)	1 851	(2 721)	-	(3 809)	4
Office Equipment	668 470	6 711	(56 153)	-	619 028	(285 955)	36 469	(62 280)	1 030	(310 336)	208 693
Furniture and Fittings	2 183 313	1 763	(528 849)	-	1 656 227	(1 188 026)	312 278	(152 511)	14 323	(1 023 986)	622 292
Motor Vehicles	12 237 368	443 239	-	-	12 680 607	(2 382 500)	-	(1 694 423)	-	(3 877 023)	8 703 583
Leased assets	173 700	-	-	-	173 700	(57 900)	-	(57 900)	-	(115 800)	57 900
	16 822 775	1 011 210	(1 180 832)	-	16 653 153	(4 602 485)	856 844	(2 091 748)	24 625	(6 003 863)	10 639 604



**Unaudited Schedule**  
**Dr. Pixley Ka Isaka Seme Local Municipality**  
**Appendix A**  
June 2016

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>											
Land and buildings	216 039 806	-	(696 749)	-	215 343 057	(58 262 147)	(5 285)	(4 730 685)	-	(63 998 127)	151 355 519
Infrastructure	906 032 169	-	-	4 160 353	910 191 522	(475 316 526)	-	(20 162 676)	-	(495 479 202)	414 722 320
Work in Progress	3 977 919	27 472 259	-	(4 160 353)	27 290 825	-	-	-	-	-	27 290 825
Heritage assets	3 465 999	-	-	-	3 465 999	-	-	-	-	-	3 465 999
Other assets	16 822 775	1 011 210	(1 190 832)	-	16 643 153	(4 602 486)	656 644	(2 081 749)	24 025	(6 003 566)	10 639 604
	<b>1 146 388 668</b>	<b>28 483 469</b>	<b>(1 887 581)</b>	<b>-</b>	<b>1 172 984 556</b>	<b>(539 181 161)</b>	<b>651 349</b>	<b>(26 976 110)</b>	<b>24 025</b>	<b>(566 480 897)</b>	<b>607 484 267</b>
<b>Intangible assets</b>											
Other	1 728 146	-	-	-	1 728 146	(432 979)	-	-	-	(432 979)	-
	<b>1 728 146</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 728 146</b>	<b>(432 979)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(432 979)</b>	<b>-</b>
<b>Investment properties</b>											
Investment property	112 403 835	-	-	-	112 403 835	(2 295 316)	-	(1 174 049)	-	(3 469 367)	108 934 468
	<b>112 403 835</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112 403 835</b>	<b>(2 295 316)</b>	<b>-</b>	<b>(1 174 049)</b>	<b>-</b>	<b>(3 469 367)</b>	<b>108 934 468</b>
<b>Total</b>											
Land and buildings	216 039 806	-	(696 749)	-	215 343 057	(58 262 147)	(5 285)	(4 730 685)	-	(63 998 127)	151 355 519
Infrastructure	906 032 169	-	-	4 160 353	910 191 522	(475 316 526)	-	(20 162 676)	-	(495 479 202)	414 722 320
Work in Progress	3 977 919	27 472 259	-	(4 160 353)	27 290 825	-	-	-	-	-	27 290 825
Heritage assets	3 465 999	-	-	-	3 465 999	-	-	-	-	-	3 465 999
Other assets	16 822 775	1 011 210	(1 190 832)	-	16 643 153	(4 602 486)	656 644	(2 081 749)	24 025	(6 003 566)	10 639 604
Intangible assets	1 728 146	-	-	-	1 728 146	(432 979)	-	-	-	(432 979)	-
Investment properties	112 403 835	-	-	-	112 403 835	(2 295 316)	-	(1 174 049)	-	(3 469 367)	108 934 468
	<b>1 260 490 649</b>	<b>28 483 469</b>	<b>(1 887 581)</b>	<b>-</b>	<b>1 257 086 537</b>	<b>(541 069 488)</b>	<b>651 349</b>	<b>(26 149 159)</b>	<b>24 025</b>	<b>(569 383 243)</b>	<b>716 418 735</b>

Unaudited Schedule  
Dr. Pixley Ka Isaka Seme Local Municipality  
Appendix A

Analysis of property, plant and equipment as at 30 June 2015  
Cost/Revaluation Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>											
Land (Separate for AFS purposes)	69 964 934	-	(144 078)	-	69 820 856	-	-	-	-	-	69 820 856
Landfill Sites (Separate for AFS purposes)	10 648 989	-	-	-	10 648 989	(1 250 850)	-	(1 250 850)	-	(2 501 700)	8 148 289
Buildings (Separate for AFS purposes)	145 725 908	-	(158 947)	-	145 566 961	(53 253 921)	74 776	(3 581 302)	-	(86 780 447)	89 808 514
	<u>216 340 831</u>	<u>-</u>	<u>(301 025)</u>	<u>-</u>	<u>216 039 809</u>	<u>(64 804 771)</u>	<u>74 776</u>	<u>(4 832 152)</u>	<u>-</u>	<u>(89 282 147)</u>	<u>158 777 838</u>
<b>Infrastructure</b>											
Roads, Pavements & Bridges	372 014 455	-	-	-	372 014 455	(195 081 231)	-	(7 471 418)	(6 881 975)	(209 514 625)	162 489 530
Water	325 768 938	29 509 555	-	-	355 278 493	(167 607 778)	-	(6 922 680)	(33 601)	(174 544 089)	180 714 434
Electricity	176 109 795	2 629 426	-	-	178 739 221	(85 895 974)	-	(5 223 209)	(118 565)	(91 237 849)	87 501 379
	<u>873 893 188</u>	<u>32 138 981</u>	<u>-</u>	<u>-</u>	<u>906 032 169</u>	<u>(448 584 983)</u>	<u>-</u>	<u>(19 617 307)</u>	<u>(7 114 241)</u>	<u>(478 315 525)</u>	<u>430 715 843</u>
<b>Work in Progress</b>											
Infrastructure	9 524 812	24 828 386	-	(30 476 078)	3 877 819	-	-	-	-	-	3 877 819
	<u>9 524 812</u>	<u>24 828 386</u>	<u>-</u>	<u>(30 476 078)</u>	<u>3 877 819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3 877 819</u>

## June 2016

**Accumulated depreciation**

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**Unaudited Schedule**  
**Dr. Pixley Ka Isaka Seme Local Municipality**  
**Appendix A**  
June 2016

**Analysis of property, plant and equipment as at 30 June 2015**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying Value Rand
<b>Total property plant and equipment</b>											
Land and buildings	216 340 831	-	(301 025)	-	216 039 806	(54 504 771)	74 776	(4 832 152)	-	(59 262 147)	156 777 659
Infrastructure	873 853 186	32 138 981	-	-	906 032 168	(448 584 983)	-	(19 817 302)	(7 114 241)	(476 316 826)	430 716 843
Work In Progress	9 524 512	24 829 386	-	(30 476 079)	3 877 819	-	-	-	-	-	3 877 819
Heritage assets	3 485 999	-	-	-	3 485 999	-	-	-	-	-	3 485 999
Other assets	15 540 285	1 282 489	-	141	16 822 916	(3 796 321)	-	(781 116)	(25 051)	(4 802 488)	12 220 428
	<b>1 119 784 916</b>	<b>68 250 856</b>	<b>(301 025)</b>	<b>(30 476 938)</b>	<b>1 146 358 809</b>	<b>(606 886 678)</b>	<b>74 776</b>	<b>(25 230 576)</b>	<b>(7 139 292)</b>	<b>(639 161 161)</b>	<b>807 177 648</b>
<b>Intangible assets</b>											
Computers - software & programming	1 298 939	429 207	-	-	1 728 146	(432 979)	-	(444 902)	-	(877 881)	850 265
	<b>1 298 939</b>	<b>429 207</b>	<b>-</b>	<b>-</b>	<b>1 728 146</b>	<b>(432 979)</b>	<b>-</b>	<b>(444 902)</b>	<b>-</b>	<b>(877 881)</b>	<b>850 265</b>
<b>Investment properties</b>											
Investment property	112 403 835	-	-	-	112 403 835	(1 121 269)	-	(1 174 049)	-	(2 295 318)	110 108 517
	<b>112 403 835</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112 403 835</b>	<b>(1 121 269)</b>	<b>-</b>	<b>(1 174 049)</b>	<b>-</b>	<b>(2 295 318)</b>	<b>110 108 517</b>
<b>Total</b>											
Land and buildings	216 340 831	-	(301 025)	-	216 039 806	(54 504 771)	74 776	(4 832 152)	-	(59 262 147)	156 777 659
Infrastructure	873 853 186	32 138 981	-	-	906 032 168	(448 584 983)	-	(19 817 302)	(7 114 241)	(476 316 826)	430 716 843
Work In Progress	9 524 512	24 829 386	-	(30 476 079)	3 877 819	-	-	-	-	-	3 877 819
Heritage assets	3 485 999	-	-	-	3 485 999	-	-	-	-	-	3 485 999
Other assets	15 540 285	1 282 489	-	141	16 822 916	(3 796 321)	-	(781 116)	(25 051)	(4 802 488)	12 220 428
Intangible assets	1 298 939	429 207	-	-	1 728 146	(432 979)	-	(444 902)	-	(877 881)	850 265
Investment properties	112 403 835	-	-	-	112 403 835	(1 121 269)	-	(1 174 049)	-	(2 295 318)	110 108 517
	<b>1 232 487 680</b>	<b>88 780 063</b>	<b>(301 025)</b>	<b>(30 476 938)</b>	<b>1 290 490 790</b>	<b>(508 440 323)</b>	<b>74 776</b>	<b>(26 649 521)</b>	<b>(7 139 292)</b>	<b>(642 364 360)</b>	<b>718 136 430</b>